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ADMINISTRATION REVIEW OF U.S. POLICY TOWARD THE PHILIPPINES

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HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

ADMINISTRATION REVIEW OF U.S. POLICY TOWARD THE PHILIPPINES

OCTOBER 30, 1985

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ADMINISTRATION REVIEW OF UNITED STATES POLICY TOWARD THE PHILIPPINES

WEDNESDAY, OCTOBER 30, 1985

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met at 9:39 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Richard G. Lugar (chairman of the committee) presiding.

Present: Senators Lugar, Kassebaum, Murkowski, Evans, Pell, Sarbanes, Cranston, Dodd, and Kerry.

The CHAIRMAN. This hearing of the Senate Foreign Relations Committee is called to order.

The subject of today's hearing is the Republic of the Philippines.

I need not dwell upon the deep friendship and historical ties which the American people have with the Filipino people. It is a special relationship which both nations respect and seek to preserve.

It is equally obvious that the Philippines are in the midst of an extremely difficult period in their national life. The United States is concerned and wishes to be helpful.

The purpose of today's hearing is to review events in the Philippines over the past year and to have the administration outline its current policy toward the government of President Ferdinand Marcos.

I have asked that this review include an account of the mission of our colleague, Senator Paul Laxalt, to Manila, at the request of President Reagan 3 weeks ago.

In his testimony on March 21 of this year before the Subcommittee on East Asian and Pacific Affairs, one of today's witnesses, Assistant Secretary Paul Wolfowitz, summarized that policy as follows, and I quote:

> Our policy toward the Philippines rests on the premise that fundamental political, economic, and military reforms are needed if stability is to be preserved and economic health restored.

What the committee hopes to hear from the administration at this meeting is an assessment of just how successfully that policy is being carried out.

The administration has repeatedly stated that the revitalization of democratic institutions is essential. We would like to know what trends have been evident in the political area and what can be expected as the Marcos government prepares for local and provincial elections in 1986 and for presidential elections in 1987 or before.

We would like to know what changes have taken place in the economic area; specifically, what reform measures have been adopted by the Government in the effort to stabilize the tenuous economic situation and to bring greater economic equity to the Filipino people as a whole.

We also hope to hear what changes have taken place in the armed forces of the Philippines, to restore its high level of professionalism and to make the armed forces, once again, an effective instrument for the protection of democracy.

Finally, we hope to have the administration's assessment of the threat posed by the New People's Army—the armed wing of the Communist Party of the Philippines—as it wages an increasingly savage and widespread insurgency against the Philippine Government.

Let me make clear that the importance of the United States relationship with the Philippines does not rest uniquely upon the U.S. military bases at Clark and Subic. These bases are extraordinarily significant, make no mistake about that. The strategic and operational importance of these bases in the conduct of our security role in Asia and the Pacific are important, and I believe that all of us recognize this fact.

But it would be a grave mistake to conceive of the United States-Philippine relationship strictly in terms of maintaining United States access to these bases.

What really counts for the United States is the relationship with the Filipino people and the Philippine nation. The ultimate viability of the United States-Philippines relationship lies in the profound and genuine understanding between our two peoples and our two nations and in the common values we share.

The military bases cannot exist without that understanding. The objective of U.S. policy should be to perpetuate that broader, fundamental relationship with whatever democratic government or leader is in power in the Philippines.

Our witnesses today are: Mr. Paul Wolfowitz, Assistant Secretary, Bureau of East Asian and Pacific Affairs, Department of State; Mr. Richard Armitage, Assistant Secretary, International Security Affairs, Department of Defense; and Charles Greenleaf, Jr., Assistant Administrator, Bureau for Asia and Near East, Agency for International Development.

Before proceeding with the witnesses, however, I am going to ask for opening statements or comments of my colleagues.

First, Senator Cranston of California.

Senator CRANSTON. I would yield first to Senator Sarbanes.

The CHAIRMAN. Senator Sarbanes of Maryland.

Senator SARBANES. Thank you, but Alan, you go ahead.

Senator CRANSTON. Thank you very much Paul, and Mr. Chairman.

I join in welcoming Assistant Secretary Wolfowitz and his colleagues to this session. They are to be commended for the frank and timely manner in which they have been working with Congress on this very crucial issue.

Mr. Chairman, I think it is noteworthy that through our mutual efforts, we have an extraordinary bipartisan consensus on this committee regarding the Philippines.

Frank Murkowski and I have sponsored several informal gatherings of interested Senators on this issue, in which you have been good enough to join with us. The result has been the establishment of a sound basis for proceeding; we have an agreed definition of the problem.

We are here today because there is a gathering storm in the Philippines. It is a storm which threatens democracy in that former American colony, a storm which threatens our important bases in the Philippines, a storm which threatens American security interests throughout the Pacific rim.

It is clear that substantial reforms must take place in the electoral process, in the military, and in the Philippine economy currently sinking under the weight of "crony capitalism." Otherwise, revolution will be the only alternative to the continuation of the status quo, and we will ultimately witness a military takeover by an entirely indigenous, Maoist force.

The challenge before us now is to identify sound proposals to defuse the growing crisis, for it is clear that in the Philippines, there are all the makings for the United States of another Vietnam, another Iran, another Nicaragua.

I believe that the best friend Communists have in Manila today is Ferdinand Marcos. Every day that Marcos continues to monopolize all the levers of power brings closer the day Communists will rule in Manila.

Therefore, I believe it must be our Government's policy aggressively to support the democratic process, not the Marcos dictatorship.

We must do all we can to help bring about a swift transfer of power from Marcos to the loyal, democratic, and still largely pro-American opposition.

I recognize that heavyhanded U.S. efforts could spark a nationalist backlash that might sustain Marcos in power. But I believe our Government should be doing more, much more, to separate the United States from Marcos and to make clear that we support reform in crucial areas as a quid pro quo for expanded American assistance.

In my questions today, I want to explore a conditional Marshall plan-type approach to helping rebuild democracy in the Philippines. Such a carrot-and-stick proposal would have our Government clearly state that if the Philippines return to democratic rule, the United States will lead other nations in pushing a recovery plan for economic development that could crush the Communist insurgency.

If we can reverse the economic collapse while reducing the political cronyism and corruption institutionalized by Ferdinand Marcos, we can close the wounds upon which communism feeds.

Such a plan would have the United States enlist Japan, South Korea, and other prosperous Pacific allies in a multilateral aid program. American taxpayers should not be asked to foot the bill alone; Asian nations enjoying such enormous trade surpluses with the United States should be pressed to pitch in. Clearly, they share our interest in securing a stable and democratic Philippine nation.

Finally, we should recognize that expanded U.S. economic assistance would be far less costly than relocating the Clark and Subic

Bay facilities. Depending on estimates of the cost of relocation, it could run as high as $8 billion. Such an unwelcome move could become our only alternative if we do not do more now to secure democracy in the Philippines.

I look forward to continuing our dialog on these issues.

Thank you.

The CHAIRMAN. Thank you very much, Senator Cranston.

Senator Sarbanes.

Senator SARBANES. No statement.

The CHAIRMAN. Senator Evans, do you have any opening comment?

Senator EVANS. No, Mr. Chairman.

The CHAIRMAN. If not, then we will proceed to the testimony.

Gentlemen, we appreciate the prepared statements that you have submitted. They will be published in the record in full. We want there to be ample time for you to make the case that you have this morning.

I would suggest, Mr. Wolfowitz, if you could summarize your testimony in 15 minutes, and likewise, Mr. Armitage, some reasonable period of time, and Mr. Greenleaf, that would then permit us to get on to questions at an early point. We would like to do that, and I know you would like to receive and respond to those questions.

So, with those general guidelines, we would welcome your testimony first, Mr. Wolfowitz, then Mr. Greenleaf, and then Mr. Armitage.

STATEMENT OF PAUL D. WOLFOWITZ, ASSISTANT SECRETARY, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE

Mr. WOLFOWITZ. Thank you, Mr. Chairman.

I have a longer statement which I have submitted and which I would like to enter into the record.

It is a pleasure to be here to testify and I appreciate Senator Cranston's comments. I think we have done a lot in the last year, particularly in fashioning a real consensus, bipartisan, between both branches, executive and legislative, on the Philippines.

I am pleased today to be able to continue our close dialog on developments in that country and their impact on our longstanding and vital interests there.

I believe that this dialog is crucial to insuring continued effective cooperation between the administration and the Congress in addressing what, in my view, is one of the most serious foreign policy challenges we face, not just in East Asia, but worldwide.

The Philippines, one of our closest and most important allies, is in deep trouble. U.S. interests of immense importance are at risk. But it is not just our interests alone that are at stake. A Communist takeover in the Philippines would threaten the stability of the East Asian region and the many countries in it who have so successfully focused their efforts in recent years on economic development.

Most of all, it would threaten the Filipino people themselves and permanently destroy all hopes for democracy in that country.

Thus, there are many others who have a stake in a successful outcome, and they have a responsibility to help bring it about. Above all, no solution will be possible without great effort, responsibility, and even courage on the part of Filipinos themselves.

But historical circumstances and our own strengths and interests as a nation give the United States a large role to play, a role which we have not shirked. Our policy toward the Philippines is an active and dynamic one, designed to deal with an evolving situation. We have made unmistakably clear to the Philippine leadership, to President Marcos personally, the need for early and dramatic progress toward fundamental reforms if we are to be of effective assistance.

Specifically, we support the revitalization of democratic institutions in the Philippines, the restoration of a free market economy, and the reinvigoration of military professionalism as the best approach to putting the Philippines back on the right track.

I might point out, Mr. Chairman, you will see in each of these areas that what we are calling for is not something new, not something alien to the Philippines, but a return to traditions that have worked well in that country in the past. That is an element, I think, of great hopefulness in the situation.

In this regard, as you know, we have recently strengthened our approaches to the Philippine Government at the highest levels in support of an urgently needed program of reforms. In the coming months, we will continue to look to this committee for counsel and support in helping to fashion an effective strategy for dealing with the crisis in that country.

Mr. Chairman, I mention in my statement the important American interests that are at stake in the Philippines. Perhaps it does not bear belaboring them too much. They include a stable, prosperous, and democratically oriented Philippines. They include the prevention of a Communist takeover. They include the maintenance of strategic access to the naval and air force facilities at Subic and Clark. And they include the continuation of the Philippines as an important participant in regional cooperation in Southeast Asia, as a member of ASEAN, one of the most effective regional organizations in the world today.

But I think it is important to emphasize, Mr. Chairman, that these interests cannot be separated or detached from one another. There is not one interest that dominates another. And, in particular—and this is what I would like to stress—our policy in the Philippines is not and must not be made hostage to our interest in the bases. There is no conflict between our interest in the bases and our interest in democratic reform. We are not afraid of democratic change. We believe that our essential strategic interests can be maintained in the Philippines with any democratic government.

We believe that reform is essential to prevent a Communist victory that would end at one and the same time both our hopes for democracy and our access to these important military facilities.

In seeking to protect our interests, we have sought to promote peaceful change through the revitalization of institutions which will help the country more effectively to cope with three crises that are interlocked with one another: an economic crisis, a military crisis, and an overarching political crisis.

We have not tried to impose our own agenda. Instead, we have supported a constructive Philippine agenda, one that is being pursued energetically by responsible, politically active elements of Philippine society, both inside and outside the government.

The solutions to the problems of the Philippines must be Philippine solutions. But it is appropriate for us to lend our support, our guidance, and to make clear our views.

Mr. Chairman, let me just summarize in each of these three areas—the political, the economic, and the military—some of the things that have happened since we last appeared before you and some of the changes that we see as necessary in the future. But let me make an overall statement which I am afraid has to be a somewhat pessimistic one.

In each of these three areas I think you will see there has been some progress. But that progress has been halting, uneven, and painfully slow. In some cases, it has been marred by backward steps.

Time is of the essence, Mr. Chairman, and time is not being used very well.

In the political area, some of the significant steps that we have reviewed in earlier sessions, in 1983 and 1984, included important changes in the presidential succession machinery, a great increase in freedom of the press, the formation of a citizen's movement for free elections, the much fairer and more open parliamentary elections in the spring of 1984, and the impressively impartial investigation by the Agrava Board of the Aquino assassination.

In both the electoral area and in the area of the investigation and prosecution in the Aquino murder, there are important steps ahead and important question marks.

At present, local elections for governors and mayors are scheduled for the spring of 1986, and an election for president and vice president is scheduled for the spring of 1987.

Fair elections are essential components for restoring stability and growth. You might note, Mr. Chairman, that I have said growth. I mean that. It is not just a political issue; it is also an economic one.

Successful elections I think are a key element to restoring confidence in the economy as well as in the government.

The court which throughout the year has been trying those accused in connection with the Aquino assassination has completed presentation of evidence and arguments. The perception of the Philippine public as to whether justice has been done will have an important bearing on whether stability and public confidence can be restored.

In the area of the economy, it is our judgment that intrusive and erratic government interference, together with control of important segments of the economy by personal monopolies have contributed significantly to the overwhelming economic problems now faced by the Philippines.

Over the past year, we have been engaged in extremely frank dialogs with the Philippine Government concerning fundamental reforms that are essential to reviving economic energies and the potential of the country.

Some recent developments should be noted. These include the conclusion of a standby agreement with the IMF in December 1984. As a result of that agreement there was the decontrol of the exchange rate. Also as a result of that agreement there were measures to reform the tax system as well as the laying out of measures to reform the coconut and sugar sectors.

By mid-1985, the Philippines had come into full compliance with the financial criteria of the IMF program, though not with the very important criteria pertaining to restructuring of key sectors of the economy.

Disbursment of the third tranche of the IMF standby has been delayed while the IMF, the World Bank and the Philippine Government try to come to grips with the difficult policy issues in reform of the coconut and sugar monopolies.

It is too early to make a judgment on the likely effectiveness of proposed reforms that are still under discussion. One can say on the positive side that if the spirit and letter of the proposals are fully implemented, we believe benefits would flow to producers at all levels of these industries. But one also has to add, Mr. Chairman, that we have not yet seen any substantial reform implementation.

We have lent our strong support to those reforms because we believe they are crucial to the revival of the Philippine economy.

The attitude of the private sector is also a crucial factor for economic recovery. Much needed investment, both domestic and foreign, is inhibited by an investment climate that investors perceive to be unstable and by a government attitude toward intervention in the economy that is perceived as business as usual, or one might say "interference as usual."

Mr. Chairman, Assistant Secretary Armitage will comment in much greater detail on the military situation, but as no report on the Philippines would be complete without some assessment, let me just comment very briefly myself as well.

All of the available indicators point to continued growth this year of the Communist insurgency in overall strategic terms. Nevertheless, one can say on the positive side that in 1985, the Government leadership and the military leadership have demonstrated an increased awareness of the seriousness of the insurgency and have taken some steps to deal with it more effectively.

Important elements of the leadership of the Armed Forces of the Philippines have sought to restore confidence of the Philippine people in their armed forces by returning to the basic military values of discipline and service to the nation.

They have publicly acknowledged that the armed forces have become afflicted with arrogance, abuse of authority, laziness and corruption, and they have taken steps to do something about that.

Nevertheless, as concerned civilian and military figures in the Philippines have noted, both in public and in private, there are continuing problems in the areas of armed forces leadership, in opportunities for promotions and accountability for incompetence, in corruption or abuse of authority, problems that have not yet been fully addressed.

Until the resolution of the current trial of military officers and men implicated in connection with the Aquino assassination, it ap-

pears unlikely that any significant restructuring of the armed forces leadership or authority will take place.

In our continuing dialog with the Philippine Government, we have strongly conveyed our concern for rapid progress on elimination of military abuses and increased professionalism in the Philippine Armed Forces.

I think, though, Mr. Chairman, that we, as Americans, must recognize that an effective military requires more than just professionalism. It needs equipment as well.

Proposals to cut our relatively modest military assistance to the Philippines for the sake of reducing the incidence of military abuse or promoting political reform actually do a disservice to both those very worthy goals.

The reform that has begun within the Philippine military deserves to be encouraged. Starving the military, to the contrary, will, at best, divert their attention from essential tasks and, at worst, force them to commandeer resources from an unwilling population.

Mr. Chairman, Senator Laxalt's recent visit to the Philippines at the personal behest of the President was a part of the continuing dialogue that we have maintained with the Philippine Government regarding our mutual concerns.

The trip did not signify a fundamental change in our appraisal of the situation. It was, however, a very important part of an ongoing process of contact and consultation.

As a senior Member of the Senate and also as a close personal friend of President Reagan, Senator Laxalt was able, we believe, to convey U.S. concerns and present U.S. policy in the most authoritative way possible and to eliminate any possible misperceptions about our policy or any possible beliefs that we are divided here at home in our commitment to democratic reform in the Philippines.

The Senator discussed our concerns fully. He was not there to deliver hostile messages, and I would also say there was no rejection on President Marcos' part of the views that the Senator very effectively presented.

President Marcos indicated some positive steps would be taken in the areas of elections and improved military performance. But, obviously, the key to success will not depend on words, but on the actions that the Philippine Government takes or fails to take to correct the economic, political, and military problems that now plague the country.

To summarize, our Philippine policy has multiple dimensions, but they are all designed to rebuild and reenergize institutions, traditional institutions in the Philippines, that are essential to restoring stability and growth.

We believe that our policy is a sound one. We do not underestimate the problems or the vital interests involved. Nevertheless, we are determined to stay the course and not be deterred by easy cynicism because, Mr. Chairman, there are no quick fixes or cheap solutions available.

Underlying it all, I have a lot of confidence that the Filipino people, with such assistance from us as they feel appropriate and that we can appropriately provide, can successfully overcome their current problems and launch the new generation on a renewed era

of growth and democratic progress in productive association with neighbors and allies.

We will mutually gain from such an outcome and the entire East Asian region will be more secure and stable.

Thank you, Mr. Chairman.

[Mr. Wolfowitz' prepared statement follows:]

PREPARED STATEMENT OF PAUL D. WOLFOWITZ

Mr. Chairman, I am pleased to be able today to continue our close dialogue on developments in the Philippines and their impact on our longstanding and vital interests there. I believe that this dialogue is crucial to ensuring continued effective cooperation between the Administratrion and the Congress in addressing one of the most serious foreign policy challenges we face, not just in East Asia, but worldwide.

The Philippines, one of our closest and most important allies, is in deep trouble. Serious, interlocking political, economic and security problems directly threaten the long-term stability and well-being of that country. U.S. interests of immense importance are at risk, but it is not just our interests alone that are at stake. A communist takeover in the Philippines would threaten the stability of the East Asian region and the many countries in it who have so successfully focused their efforts in recent years on economic development. Most of all, it would threaten the Philippine people themselves, permanently destroying all hopes for democracy.

Thus, there are many others who have a stake in a successful outcome and a responsibility to help bring it about. Above all, no solution will be possible without great effort, responsibility and even courage on the part of all Filipinos. But historical circumstances and our own strengths

as a nation give the United States a large role to play, a role which we have not shirked.

Our policy towards the Philippines is an active and dynamic one designed to deal with an evolving situation. As befits a longstanding ally, we intend to continue working closely with the Philippine Government to find solutions to their problems. At the same time, we have made unmistakeably clear to the Philippine leadership the need for early and dramatic progress toward fundamental reforms if we are to be of effective assistance.

Specifically, we support the revitalization of democratic institutions, restoration of a free market economy, and reinvigoration of military professionalism as the best approach to putting the Philippines back on the right track. In this regard we have recently strengthened our approaches to the Philippine Government at the highest levels in support of an urgently needed program of reforms. In the coming months we will continue to look to this Committee for your counsel and support in helping to fashion an effective strategy for dealing with the Philippines crisis.

American Interests

Important American interests are in jeopardy in the Philippines today. These interests include:

-- A stable, prosperous, and democratically-oriented Philippines. Our nations have deep ties, both historically and through the present flows of immigration, travel, trade and culture. The democratic institutions in the Philippines were nurtured under American leadership, and this gives us an even larger stake in their success or failure.

-- Prevention of a Communist takeover. In addition to shattering all hopes for democratic solutions to the nation's problems and inflicting suffering on the Filipino people that would probably make the present situation, with all its flaws, look good by comparison, a communist takeover would be a significant blow to stability in the entire East Asian region.

-- Strategic access to the naval and air force facilities at Subic and Clark. These facilities are of crucial importance in maintaining our forward deployment posture in the Pacific and Indian Oceans and offsetting the expanded Soviet military presence in Asia. These facilities have also helped to preserve a degree of stability which has permitted states in the region to avoid diverting excessive amounts of scarce resources to military efforts and to concentrate instead on economic development which is

crucial to long-term stability. Alternatives to our present facilities exist but would be much more expensive and considerably less desirable and effective.

-- As important as these facilities are, however, let us be clear that our policy toward the Philippines cannot be and is not, made hostage to our interest in the bases. There is no confict between our interest in the bases and our interest in democratic reform. We are not afraid of democratic change. To the contrary, we believe that reform is essential to prevent a communist victory that would end at one and the same time, both our hopes for democracy and our access to these important military facilities.

-- Successful regional cooperation in Southeast Asia. Regionally, a strong ASEAN that includes a healthy Philippines allied to the U.S. is a key barrier to communist pressure in Southeast Asia and a model of what economic freedom and democratic progress can accomplish.

U.S. Policy

In seeking to protect these fundamental interests in this troubled period in the Philippines, we have sought to promote peaceful change through the revitalization of institutions

which will enable the country more effectively to cope with its current interlocking crises. Our objective is a strong, stable, dynamically growing Philippines which is democratically-oriented. We are confident that the deep mutual interests of our two nations and peoples will permit us to work with such a government constructively to enhance mutual security and economic development in the region.

We have concentrated our efforts for reform in three areas -- political, economic, and military -- each of which can contribute significantly to the rebuilding of institutions, stopping the growth of the insurgency, and creating a positive climate for the protection of our interests. We have not tried to impose our own agenda but instead we have supported a constructive Philippine agenda, one that is being pursued energetically by responsible, politically active elements of Philippine society. The solutions must be Philippine solutions, as the problems are Philippine problems.

Nevertheless, our deep ties, our important mutual interests, and the expectations of the Philippine people themselves all require that we help in every way consistent with our role as friend and ally.

You have asked me to concentrate on developments this year,

and thus I propose to review each of these areas -- political, economic and military -- and describe what I consider to be some salient developments as well as our own efforts.

Political Reforms

The requirement that the agenda of reform is and should be a Philippine agenda applies with particular force in the area of political reform. It is appropriate, however, for us to make clear our deep conviction that the invigoration of democratic institutions offers the best means of restoring public confidence in government and provides the best alternative to the unacceptable recourse to armed insurgency.

We have discussed in earlier sessions some of the significant steps taken in 1983 and 1984, including:

-- Changes in the presidential succession machinery

-- Increased freedom of the press;

-- Rise of a citizens movement for free elections;

-- The much fairer and more open parliamentary elections of the spring of 1984; and

-- The Agrava Board's impartial investigation of the Aquino assassination.

At present, local elections for governors and mayors are

scheduled for the Spring of 1986 and an election for President and Vice President is scheduled for the Spring of 1987. Fair elections are essential components for restoring stability and growth.

The court which throughout the year has been trying those accused in connection with the Aquino assassination has completed presentation of evidence and arguments. We anticipate that a verdict will be rendered in the near future. The perception of the Philippine public as to whether justice has been done will have an important bearing on whether stability and public confidence can be restored.

As you know, we believe that full prosecution and punishment of those responsible is very important. Where feasible, the U.S. has cooperated both in the very successful fact-finding effort of the Agrava Board, whose work contributed significantly to revived faith by Filipinos in their own institutions, and, this year, in provision to prosecutors of any relevant evidence in the possession of U.S. Government employees.

The Economy and Economic Reform

In 1984 the Philippine GNP declined by 5.5 per cent. Although final figures for 1985 are not yet available (the

decline is about 4.5 per cent for the first half of 1985), we estimate that this year will end with a decrease of between 3 and 5 percent. However, inflation, which reached an annual rate of over 60 percent in November 1984, is now down to an annual rate of about 8 per cent during the first nine months of 1985, and has been only about six per cent in recent months. Both current account and balance of payments have shown marked improvement.

This year we have also witnessed the collapse of the sugar economy in the west-central Philippines, with consequent major social disruption and poverty in the plantation areas.

It is our judgment that intrusive and erratic government interference in the economy, together with control of important segments of the economy by personal monopolies and monopsonies, have contributed significantly to the overwhelming economic problems now faced by the Philippines. These problems, aggravated by declining world prices for Philippine export commodities, came to a head with the significant loss in political confidence precipitated by the Aquino assassination in mid-1983.

Over the past year we have been engaged in a full and frank dialogue with the Philippine Government concerning fundamental reforms which can contribute significantly to reviving the

economic energies and potential of the country. The Philippines is blessed with considerable natural resources, a hard-working people, high literacy, and an able entrepreneurial class. We strongly believe that a reorientation toward a free market system and a restoration of confidence can in combination unleash considerable productive economic energy and investment.

Some recent developments should be noted:

-- The Philippine Government entered into a standby agreement with the IMF in December 1984 which set financial criteria;

-- decontrolled the exchange rate; and

-- undertook measures to reform the tax system, the coconut and sugar sectors, and financial institutions and public corporations.

-- By mid-1985, the Philippines had come into full compliance with the financial critieria of the IMF program.

More recently, disbursement of the third tranche of the IMF standby has been delayed while the IMF, the IBRD and the Philippine Government try to come to grips with the difficult policy issues involved in reform of the coconut and sugar monopolies. It is too early to make a judgement on the likely effectiveness of proposed reforms still under discussion. If the spirit and letter of the proposals are fully implemented,

we believe benefits would flow to producers at all levels of these industries. However, we have not yet seen any substantial reform implementation.

We have lent our strong support to these efforts, believing that both the short-term financial stabilization program under the IMF agreement and longer-term structural reform of government economic policies are necessary if a renewal of sustained economic growth is to be achieved.

Responding to Philippine efforts to reintroduce market forces and fair competition in key agricultural commodities -- rice, wheat, flour, and fertilizer -- we provided effective readjustment incentive through the signature last summer of a PL-480 Title I Agreement for $40 million in U.S. agricultural commodities. The self-help provisions of that agreement provide for reintroduction of market forces in these areas, previously subject to administrative controls and government monopolies.

Although some initial steps have been taken to implement these reforms, serious questions remain about the Government's intent to establish competitive market conditions for these commodities. The level of our economic assistance will be influenced strongly by the implementation record for these as

well as other basic reform measures.

The attitude of the private sector is also a critical factor for economic recovery. Continued bank lending and trade financing are both dependent upon the Philippines remaining in satisfactory compliance with IMF guidelines. Much-needed investment, both domestic and foreign, is inhibited by an investment climate which investors perceive to be unstable. American investors observe that Filipino entrepreneurs are not themselves investing at this time as they await a return of political confidence and improved government economic policies. These factors are known to the political and economic leadership of the Philippines and provide a powerful incentive for attention to an agenda of reform which we can support.

The Military Situation and Military Reforms

While my colleague from the Defense Department Assistant Secretary Armitage will comment in greater detail on recent military developments, no report on the Philippines would be complete without some assessment of the security situation.

I would note first that all the available indicators point to continued growth this year of the CPP/NPA insurgency in

overall strategic terms. Increasing NPA presence and influence have become particularly apparent this year in the central Philippines (the Visayas), and in provinces near the capital of Manila. Communist "taxation" is on the increase. The AFP has scored a number of tactical victories in local encounters but these limited successes have not had a significant impact in slowing the momentum of the insurgency as a whole.

Nevertheless, in 1985 the government leadership and the military establishment have demonstrated an increased awareness of the seriousness of the insurgency and have taken steps to deal with it more directly.

Important elements of the AFP leadership have sought to restore the confidence of the Philippine people in their armed forces by returning to the basic military values of discipline and service. They have publicly acknowledged that the armed forces had become afflicted with "arrogance, abuse of authority, laziness, and corruption." The United States welcomes this increased Philippine Government attention to combating the insurgency and the recognition that rebuilding the professionalism of the armed forces will be essential to that effort. However, we believe much more progress is needed if the military is to develop the capability to counter the communist insurgency and begin the difficult process of

regaining the confidence and support of the Philippine people.

As concerned civilian and military figures in the Philippines have noted in public and private, there are continuing problems in the areas of armed forces leadership, opportunities for upward mobility, and accountability for incompetence, corruption or abuse of authority which have not yet been fully addressed. Until the resolution of the current trial of military officers and men who have been implicated in connection with the Aquino assassination, it appears unlikely that any significant restructuring of armed forces leadership or authority will take place.

This remains a significant impediment to full realization of the reforms which have been initiated. In our continuing dialogue with the Philippine Government, we have strongly conveyed our concern for rapid progress on elimination of military abuses and enhanced professionalism.

An effective effort against the insurgency requires far more than just military means. The Philippine Armed Forces do not need any lectures from us on that score. In fact, one could say that they wrote the book on how to fight an insurgency successfully in their struggle against the Huk rebellion in the 1950's. And they followed the same prescriptions in largely putting down the Moro insurgency in the 1970's through a

campaign that was as much political and economic as it was military. What they need to do now is to take that book off the shelf again and apply its lessons, no matter how demanding they may be in terms of professionalism, discipline, and courage.

We Americans must recognize, however, that such a campaign cannot succeed with only political and economic measures, and that an effective military requires more than just professionalism -- it needs equipment as well. That may seem elementary. But for the Philippine military -- which has had its budget cut heavily in the last few years, and which gets a smaller share of GNP (roughly 1%) than any other country in Southeast Asia -- it is not something that can be taken for granted.

Those who propose to cut our relatively modest military assistance to the Philippines for the sake of reducing the incidence of military abuse or promoting political reform do a disservice to both goals. The reform that has begun within the Philippine military deserves to be encouraged. Starving the military, to the contrary, will at best divert their attention from essential tasks and, at worst, force them to commandeer resources from an unwilling population.

The process of rebuilding the Philippine Armed Forces is

long overdue and will take a long time to complete. Those who will gain from delay are not Marcos' democratic opposition, but only the NPA. Indeed, if the democratic opposition does gain power some day, they too will need effective protection against the Communists and will wish that the process of rebuilding the Philippine military had been started earlier.

The Continuing Dialogue

It is not our intent to produce a deepened crisis in the Philippines, but to assist in those measures which will revitalize essential institutions which either the present government or its successor will need to defeat the insurgency, restore economic growth, promote respect for human rights and give the public confidence and hope in the future.

In this connection we have maintained and expanded frank and open relations with all responsible elements of the Philippine body politic, and have engaged in a continuing dialogue with the Philippine Government regarding our mutual concerns.

Senator Laxalt's recent visit at the personal behest of the President was a part of this continuing dialogue. The trip signified no fundamental change in our appraisal of the

situation. It was, however, an important part of the ongoing process of contact and consultation between the leaders of our two countries. As a senior member of the Senate and a close personal confidant of President Reagan, Senator Laxalt was able, we believe, to convey U.S. concerns and present U.S. policy in the most authoritative way possible.

The Senator discussed our concerns fully. However, he delivered no hostile messages and there was no rejection of our views on President Marcos' part. President Marcos indicated some positive steps would be taken in the areas of elections and improved military performance. We are studying carefully the comments of President Marcos to Senator Laxalt. Obviously, the key to success will depend not on words, but on the actions which the Philippine Government takes to correct the economic, political and military problems that now exist in that country.

In sum, our Philippine policy has multiple dimensions, all designed to rebuild and re-energize institutions which will be required to restore stability and growth. One indispensable element of this policy is assistance resources, provided by the Congress, some of which fulfill honorable commitments in connection with our important military facilities, and all of which enable us to work more effectively for constructive change.

We believe that our policy is a sound one. We do not underestimate the problems or the vital interests involved. Nevertheless, we are determined to stay the course and not be deterred by easy cynicism. No "quick fixes" or cheap solutions are available.

Nevertheless, I am confident that the Filipino people, with such assistance from us as they feel appropriate and we can appropriately provide, will successfully overcome current problems and launch the new generation on a renewed era of growth and democratic progress in productive association with neighbors and allies. We will mutually gain from such an outcome, and the entire region will be more secure and stable.

The CHAIRMAN. Thank you very much, Mr. Wolfowitz.
Mr. Greenleaf, will you proceed with your testimony.

STATEMENT OF CHARLES W. GREENLEAF, JR., ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. GREENLEAF. Mr. Chairman, I appreciate this opportunity to discuss the policy reforms we are pursuing in conjunction with our economic assistance program in the Philippines.

I have emphasized policy reform in my written testimony due to the importance of this aspect of our AID program.

During the past year, there has been considerable activity by AID, the multilateral donor community, and the Philippine Government in addressing that Government's economic crisis. Major donor institutions have pursued policy dialog in their respective programs that reinforce the IMF's 18-month standby agreement approved in December 1984.

The major donor institutions are the IMF, the World Bank, the Asian Development Bank, and the United States.

The United States is devoting its energies to structural reforms in the area of agricultural production and trade and to reducing the Government's role in these areas to the minimum consistent with the public interest.

We will be watching the Government's progress closely. We expect to use our Development Assistance Program and this year's proposed title I program in Public Law 480 to support full compliance and followthrough with the Public Law 480 self-help measures already agreed to as well as in new policy areas.

We also have pursued reform with our Economic Support Fund Program.

The Philippines has weathered the immediate economic crisis, but with substantial assistance and prodding from external sources. Through the remainder of this decade, more difficult choices affecting the country's economic structure must be made.

The United States and other donors have an important role to play, but the decisions must be the product of a genuine Philippine commitment to economic and social reform.

This concludes my oral statement, Mr. Chairman, and I would be glad to answer any questions you may have.

[Mr. Greenleaf's prepared statement follows:]

PREPARED STATEMENT OF CHARLES W. GREENLEAF, JR.

MR. CHAIRMAN, I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THE COMMITTEE TO DISCUSS PROGRESS ON POLICY REFORMS WE ARE PURSUING IN CONJUNCTION WITH OUR ECONOMIC ASSISTANCE PROGRAM IN THE PHILIPPINES.

POLICY DEVELOPMENTS

DURING THE PAST YEAR, THERE HAS BEEN CONSIDERABLE ACTIVITY BY AID, THE MULTILATERAL DONOR COMMUNITY, AND THE PHILIPPINE GOVERNMENT IN ADDRESSING THAT GOVERNMENT'S ECONOMIC CRISIS. IN DECEMBER 1984, THE IMF APPROVED AN 18-MONTH STAND-BY ARRANGEMENT, EQUIVALENT TO $630 MILLION, TO BE DISBURSED IN TRANCHES LINKED TO PHILIPPINE PERFORMANCE WITH REGARD TO A BROAD RANGE OF ADJUSTMENT MEASURES.

THESE MEASURES INCLUDE IMPORTANT CHANGES IN ECONOMIC POLICIES WHICH ARE INTENDED TO STABILIZE THE ECONOMY AND LAY THE BASIS FOR SUSTAINABLE GROWTH. THE MEASURES ARE DESIGNED TO:

(1) REDUCE THE COUNTRY'S TRADE DEFICIT;

(2) REDUCE INFLATION BY BRINGING BUDGET DEFICITS AND MONETARY GROWTH UNDER CONTROL; AND

(3) CORRECT LONG-STANDING STRUCTURAL WEAKNESSES IN THE ECONOMY BY REDUCING MONOPOLISTIC PRACTICES IN KEY AGRICULTURAL SECTORS.

THE SUCCESS OF THESE REFORM MEASURES LARGELY RESTS ON THE CONCERTED EFFORT OF THE MAJOR DONOR INSTITUTIONS TO PURSUE POLICY DIALOGUE IN THEIR RESPECTIVE PROGRAMS THAT REINFORCE THE AGENDA I HAVE JUST OUTLINED. IN THIS CASE, THE MAJOR DONOR INSTITUTIONS ARE THE IMF, WORLD BANK, ASIAN DEVELOPMENT BANK, AND THE UNITED STATES.

PHILIPPINE PERFORMANCE AGAINST THE TARGETS SET BY THE IMF HAS BEEN MIXED. THE GOVERNMENT'S INABILITY TO MEET MONETARY TARGETS RESULTED IN DEFERRAL OF A SCHEDULED IMF DISBURSEMENT IN MARCH 1985. NEW, LESS RESTRICTIVE TARGETS WERE SET, AND THE PHILIPPINES HAS STAYED COMFORTABLY WITHIN THESE LIMITS. MORE RECENTLY, DIFFERENCES HAVE DEVELOPED BETWEEN THE PHILIPPINE GOVERNMENT AND THE IMF ON THE SIZE OF THE COUNTRY'S 1985 BUDGET DEFICIT, AND THE IMF CONTINUES TO PRESS FOR A MORE FREELY FLOATING PESO.

THE RESULTS IN TERMS OF ECONOMIC PERFORMANCE HAVE LIKEWISE BEEN MIXED. A SIGNIFICANT POSITIVE DEVELOPMENT HAS BEEN THE

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SHARP DECLINE IN INFLATION. DURING THE FIRST NINE MONTHS OF 1985, CONSUMER PRICES HAVE INCREASED AT AN ANNUAL RATE OF ABOUT 8 PERCENT, COMPARED WITH A 50 PERCENT RISE OVER THE COURSE OF 1984. ALTHOUGH INTEREST RATES ARE DECLINING, THEY ARE STILL VERY HIGH IN REAL TERMS. ON THE NEGATIVE SIDE ECONOMIC OUTPUT DECLINED BY ABOUT 4.5 PERCENT IN THE FIRST HALF OF 1985. THE DECLINE FOR THE ENTIRE YEAR IS EXPECTED TO BE AROUND 3 PERCENT.

ALTHOUGH THE TRADE DEFICIT HAS ALSO BEEN REDUCED DRAMATICALLY, THIS WAS THE RESULT OF FEWER IMPORTS CAUSED BY SLOWER ECONOMIC GROWTH RATHER THAN BETTER EXPORT PERFORMANCE. IN FACT, EXPORTS DECLINED AT ABOUT THE SAME RATE AS IMPORTS DURING THE FIRST HALF OF 1985. ONLY SERVICES REGISTERED AN INCREASE.

THE COUNTRY'S FOREIGN EXCHANGE POSITION STOOD AT $1.6 BILLION AT THE END OF AUGUST 1985. THIS POSITION HAS HELPED FIRM UP THE PESO EXCHANGE RATE AND PROVIDE PERHAPS A FALSE SENSE OF SECURITY THAT ECONOMIC STABILIZATION IS BEING ACHIEVED. HOWEVER, EVEN A MINOR POLITICAL CRISIS, OR FURTHER EXTERNAL SHOCKS AFFECTING THE COUNTRY'S PRIME EXPORTS, COULD RAPIDLY TURN THE FOREIGN EXCHANGE SITUATION AROUND.

U.S. Policy Agenda

The United States supports the overall objectives of the IMF's adjustment program. We believe the IMF is well positioned to develop and monitor fiscal targets with the Philippine Government. The U.S. has chosen to devote its energies to structural reforms in the area of agricultural production and trade and to reducing the government's role in these areas to the minimum consistent with the public interest. Specific policy measures in which we have had direct involvement include:

(1) deregulation of prices of essential agricultural commodities, specifically rice and corn. This was accomplished for all commodities except rice which officially had its ceiling price removed as of October 1, 1985. Announcement of this policy measure was a condition of our PL 480 Title I agreement signed in June 1985;

(2) liberalizing wheat imports and flour distribution, thereby divesting the government's National Food Authority of its exclusive role in these areas, and opening up these activities to the private sector. This was also a condition of the PL 480 Title I agreement;

(3) SIMILAR LIBERALIZATION OF FERTILIZER IMPORTS AND DISTRIBUTION; AND

(4) REVITALIZING THE RURAL CREDIT SYSTEM INVOLVING RESTRUCTURING INTEREST RATES FOR AGRICULTURE PRODUCTION CREDIT TO MORE ACCURATELY REFLECT THE MARKET, SO THAT RURAL CREDIT NEEDS MAY BE MET FROM SAVINGS INSTEAD OF FROM GOVERNMENT LOANS AND SUBSIDIES. WE RECENTLY SIGNED AN $18.9 MILLION DEVELOPMENT ASSISTANCE LOAN WITH THE PHILIPPINE GOVERNMENT IN A CO-FINANCING ARRANGEMENT WITH THE WORLD BANK IN SUPPORT OF THIS REFORM.

REFORM IN THE SUGAR AND COCONUT SECTORS IS ALSO OF GREAT INTEREST TO US. WE ARE WORKING CLOSELY WITH THE WORLD BANK WHICH HAS TAKEN THE LEAD IN TALKS WITH THE PHILIPPINE GOVERNMENT. THESE REFORMS ARE DESIGNED TO DISMANTLE MONOPOLISTIC BUYING AND MARKETING PRACTICES FOR SUGAR AND COCONUT PRODUCTS, WITH THE OBJECTIVE OF INCREASING RETURNS TO THE FARMERS. WE HAVE HAD SEVERAL MEETINGS WITH THE WORLD BANK RECENTLY ON THE STATUS OF THESE TALKS. WE UNDERSTAND THAT TENTATIVE AGREEMENT HAS BEEN REACHED ON BROAD REFORMS IN BOTH SECTORS.

THE MOST SIGNIFICANT U.S. POLICY ACCOMPLISHMENTS TO COME FROM OUR BILATERAL DISCUSSIONS WITH THE PHILIPPINE GOVERNMENT ARE IN THE AREA OF DEREGULATION OF WHEAT IMPORTS AND FLOUR DISTRIBUTION, DEREGULATION OF FERTILIZER IMPORTS AND DOMESTIC DISTRIBUTION, AND IN REMOVING PRICE CEILINGS ON MILLED RICE AND CORN. THE SPECIFIC MEASURES AGREED UPON ARE CONTAINED IN THE PL 480 TITLE I SALES AGREEMENT EXECUTED IN JUNE 1985.

THESE MEASURES AFFECT SIGNIFICANTLY THE OPERATIONS OF THE NATIONAL FOOD AUTHORITY (NFA). SPECIFICALLY, THEY DIVEST THE NATIONAL FOOD AUTHORITY OF MOST OF ITS PRIOR FUNCTIONS IN MANAGING GRAIN AND NON-GRAIN IMPORTS AND DOMESTIC FLOUR DISTRIBUTION, AND LIMIT NFA'S ROLE IN RICE AND CORN TO STABILIZATION OF SUPPLIES. WHEAT IMPORTS AND FLOUR DISTRIBUTION ARE TO BE OPENED UP TO THE PRIVATE SECTOR, INCLUDING FLOUR MILLS, WITH NFA RETAINING THE RIGHT TO ISSUE LICENSES. NFA MAY IMPORT AND MARKET WHEAT TO PREVENT LARGE SWINGS IN PRICES OR SUPPLY, BUT THIS IS TO BE DONE IN COMPETITION WITH OTHER PRIVATE SECTOR IMPORTERS.

Impact of Policies

Having executed the PL 480 agreement only in July 1985, we believe it is somewhat premature to determine what impact these measures will have. We have had some differences with the Philippine Government over some of the implementing guidelines. In September, we withheld Development Assistance funding from a major agriculture credit program until restrictions imposed on distribution of import licenses for the private sector were lifted.

We will be watching the Government's progress very closely and expect to use both our Development Assistance program and this year's proposed Title I program to support full compliance and follow-through with the PL 480 self-help measures already agreed to, as well as new policy areas (outlined below). In terms of impact, there are already indications of lower flour prices to consumers and more plentiful supplies as a result of deregulation of domestic flour distribution. It is still too early to determine if lifting the ceiling price on rice will result in increased output or increased price to farmers.

Future Policy Areas

Our attention over the next 12 months will be focussed on the Government's performance in implementing the policy

MEASURES DISCUSSED ABOVE. THAT PERIOD OF TIME SPANS TWO CROPPING SEASONS. WE WILL ALSO BE WATCHING CLOSELY HOW THE GOVERNMENT WILL BEGIN IMPLEMENTING REFORMS IN SUGAR AND COCONUTS, MEASURES WHICH WILL TAKE 1-2 YEARS BEFORE PERFORMANCE CAN BE ADEQUATELY ASSESSED. WE ARE ALSO INTERESTED IN PURSUING ADDITIONAL POLICY AREAS WHICH HAVE BOTH DIRECT AND INDIRECT EFFECTS ON AGRICULTURAL PRODUCTION.

OUR THINKING IN THIS REGARD IS STILL FORMING AND A CLEAR AGENDA HAS YET TO EMERGE. HOWEVER, OUR INTERESTS CENTER ON THE FOLLOWING:

---WE ARE PROPOSING GRADUAL ELIMINATION OF SUBSIDIZED CREDIT PROGRAMS, AND REVISION OF MONETARY AND REGULATORY POLICIES AFFECTING RURAL FINANCIAL MARKETS. ON SEPTEMBER 30, 1985, WE OBLIGATED $18.9 MILLION IN DEVELOPMENT ASSISTANCE FOR A RURAL FINANCIAL REFORM PROJECT WHICH REPRESENTS OUR FIRST ENTRY INTO THIS AREA. OUR FEELING IS THAT PRIVATIZATION AND DEREGULATION OF THE ECONOMY CAN BE EFFECTIVELY PURSUED THROUGH THE FINANCIAL SECTOR.

---WE WILL ALSO EXPLORE, IN COORDINATION WITH THE WORLD BANK, CONTINUED DIVESTITURE BY THE GOVERNMENT OF PUBLIC SECTOR

ENTERPRISES THAT PROVIDE GOODS AND SERVICES TO THE RURAL SECTOR. THE WORLD BANK AND THE IDF HAVE TAKEN THE LEAD HERE, BUT WE ALSO PROPOSE TO INITIATE SEVERAL STUDIES THAT MAY LEAD TO PROPOSALS IN THIS AREA.

ECONOMIC SUPPORT FUND

IN ADDITION TO PURSUING OUR POLICY REFORM AGENDA THROUGH DEVELOPMENT ASSISTANCE AND THE PL 480 TITLE I PROGRAM, WE HAVE ALSO PURSUED REFORM WITH THE ESF PROGRAM. BECAUSE OF THE NATURE OF THE U.S.-PHILIPPINE MILITARY BASES AGREEMENT, THE ADMINISTRATION IS OBLIGED TO EXERT ITS BEST EFFORTS TO SECURE $180 MILLION ANNUALLY FOR BOTH ECONOMIC AND MILITARY AID. THE ESF AMOUNT IS $475 MILLION OVER THE FIVE-YEAR LIFE OF THE AGREEMENT.

THE PHILIPPINE GOVERNMENT TENDS TO VIEW THIS MONEY AS "RENT" FOR CONTINUED U.S. ACCESS TO MILITARY FACILITIES IN THEIR COUNTRY. THIS MEANS THAT THE GOVERNMENT IS INTERESTED IN FINANCING MODES WHICH RESULT IN RELATIVELY RAPID DISBURSEMENT OF ESF BECAUSE THESE FUNDS REPRESENT REVENUE TO THEIR BUDGET AND PROVIDE NEEDED FOREIGN EXCHANGE.

THE U.S. HAS MADE IT CLEAR TO THE PHILIPPINE GOVERNMENT WE DO NOT CONSIDER ESF TO BE RENT. RATHER, ESF REPRESENTS AID

RESOURCES WE PROVIDE TO HELP THE PHILIPPINES PURSUE ITS ECONOMIC DEVELOPMENT OBJECTIVES. OBVIOUSLY, THE PRESENCE OF ESF IN OUR BUDGET IS LINKED TO THE PRESENCE OF U.S. BASES ON PHILIPPINE SOIL.

MOREOVER, THE U.S. POSITION ON RAPIDLY DISBURSING ESF IS THAT OUR WILLINGNESS TO PROVIDE RESOURCES ON THIS BASIS IS LINKED TO ADEQUATE PROGRESS ON POLICY REFORM AND ON THE USE OF PESO COUNTERPART FOR MUTUALLY AGREED UPON DEVELOPMENT PROGRAMS. WE ARE WILLING TO PROVIDE APPROXIMATELY HALF THE ANNUAL AMOUNT OF ESF AS FAST DISBURSING AID, OR PROGRAM ASSISTANCE, IF PROGRESS ON POLICY REFORM IS EVIDENT. THE OTHER HALF WILL BE PROVIDED AS PROJECT ASSISTANCE.

IN FY 1985, WE PROVIDED HALF THE ORIGINAL ADMINISTRATION REQUEST OF $95 MILLION AS PROGRAM ASSISTANCE TO ALLEVIATE PESO SHORTFALLS IN THE GOVERNMENT'S CONTRIBUTIONS TO FOREIGN DONOR PROJECTS. THE REMAINING $47.5 MILLION WAS PROVIDED AS PROJECT AID. AN ADDITIONAL $45 MILLION ALLOCATED TO THE PHILIPPINES UNDER THE FY 1985 CONTINUING RESOLUTION ALSO WAS PROVIDED AS PROGRAM ASSISTANCE FOLLOWING EXECUTION OF REFORM MEASURES IN THE WHEAT AND FERTILIZER AREAS.

In FY 1986, we propose using half the ESF appropriation for assisting local governments in developing and implementing high priority infrastructure projects. We estimate the activity will likely not be ready for obligation, however, until later in the fiscal year. The remaining half, requested by the Philippine Government as fast disbursing assistance, is currently under discussion. As yet, we have not identified an appropriate program for transfer of these funds, and we are still exploring what policy reforms we wish to associate with this money if it is to be provided in quick-disbursing form.

Conclusion

The Philippines has weathered the immediate economic crises, albeit with substantial assistance and prodding from external sources. Through the remainder of this decade, more difficult choices affecting the country's economic structure must be made to place the economy on a sound footing and provide the growth necessary to redress poverty. While the U.S. and the international financial institutions have an important role to play in this process, the decisions must be the product of a genuine Philippine commitment to economic and social reform.

This concludes the formal portion of my statement. I look forward to answering your questions.

The CHAIRMAN. Thank you, Mr. Greenleaf.
Mr. Armitage, would you proceed.

STATEMENT OF RICHARD L. ARMITAGE, ASSISTANT SECRETARY FOR INTERNATIONAL SECURITY AFFAIRS, DEPARTMENT OF DEFENSE

Mr. ARMITAGE. Thank you, Mr. Chairman.

Please allow me also to follow Paul Wolfowitz and thank you, sir, personally, and the members of the committee as well, for the enormous amount of time and energy that they have given to us and to this issue. It has been a great source of gratification to us that we have been able to call on the members individually and in groups quite often to explain our problems and to mutually seek a solution.

I would like to associate myself, Mr. Chairman, with your own opening remarks, very cogent remarks. There are those cynics who claim that our relationship with and our interest in the Philippines is based solely on the bases and the use of Philippine facilities.

I would claim, sir, as you did, that our security alliance with the Philippines is, however, much more complex than that. It derives from a special relationship of long standing.

What is indeed most important to this administration, as to past administrations, is that the Philippines remain a stable and democratically oriented ally and a bulwark of freedom in Southeast Asia.

As the Department of Defense representative, you certainly will expect me to be able to answer questions concerning the trends of the insurgency, and I will be happy to do so in the questioning. But I might state that the trends are still bad. They are still negative.

Incidents, violent incidents are up. Numbers of New People's Army armed guerrillas are up. The numbers of the irregular guerrillas are up. The number of people who suffer death and wounds are up. I see nothing that makes me change my basic analysis, which I announced several months ago, that barring dramatic reform, dramatic change, we could still face a situation of strategic stalemate in the next 3 to 5 years.

Regarding reform in the military, I have made some notations of some of the rudimentary efforts which the AFP has put into effect.

But I want to state for the record that reform is going to take capable and competent leadership. In military terms, the sine qua non is military leadership.

Now more than ever, the Armed Forces of the Philippines must be led by officers who have the highest professional standards and the greatest loyalty to country. In this regard, overstaying generals who do not meet those criteria can only stifle the emergence of new and vigorous leadership.

I would like to state very briefly the administration's own feelings about the role of security assistance in support of reform.

I am making the case in my testimony that our security assistance, as presently structured, is designed to emphasize troop unity, troop morale, troop welfare, mobility, communications, and finally training. And, to the extent that we do enhance the Armed Forces of the Philippines in their morale and discipline, we feel we en-

courage and complement reform, and indeed we help those who would be capable leaders to have more confidence in their abilities and more confidence in their capabilities.

Now, indeed there is a contrary view, Mr. Chairman, and that view states that we should either cut down, or in some cases eliminate, our Security Assistance Program until reforms have been fully implemented.

Well, I would like to put forward my view, and that is that there are two flaws, basically, with that line of reasoning.

The first is that the New People's Army, the Communist insurgency, will not wait. It continues on its very virulent, well-determined course, while the Armed Forces of the Philippines flails around in an agony of shortage.

The second problem that I have with those who say we should cut all security assistance is that we are in the business right now of providing resources for those capable cadres in the AFP who do understand the proper role of the military and, indeed, want to return the Armed Forces of the Philippines to their former professional regard.

As morale and discipline in the AFP suffer, I think it is fair to say, as Paul mentioned, abuses will probably increase.

The Armed Forces of the Philippines, after all, is a fundamental national institution, and the question that Paul and I have to ask ourselves and that you have to ask yourselves is what sort of institution do we want in the Philippines. Do we want a constitutionally supported body, or do we want a malignant entity which aids in destabilization?

There will be an Armed Forces of the Philippines regardless of who sits in Malacanang Palace.

Finally, Mr. Chairman, if I could speak very briefly about the tenure of our bases, there has been a great deal of speculation about contingency plans and alternative sites for the United States in the Pacific. Prudent military planning, indeed, would dictate that in good times and bad we study carefully and our military commanders study carefully alternative sites.

I think if you will note the Marianas land-lease discussions in which we engaged with you, sir, and with other relevant committees for several years, beginning in the late 1970's, you will see that prudent military planning was going on in relatively good times for the Philippines.

We will continue to plan and to look at alternative sites.

All of you know very well the tremendous costs involved and the tremendous difficulties that would be involved in relocation. At the end of the day, if we were forced to relocate, we would find ourselves with no single site or combination of sites which give us the benefits that we now enjoy in the Philippines.

At present, we have no current plans to relocate.

Now, you may have further questions concerning some military construction money for the Philippines. There has been a figure floated about in the press and in some conversation here in Washington that the Department of Defense plans to request of the Congress' military construction moneys to the tune of $1.3 billion over the next 7 years.

Well, the subcommittee report which drew up that figure is somewhat in error in that that may have been a figure which was briefed in the Philippines by commanders. But the decisions on military construction moneys and the request that we would come forward with to the Congress is made in the Pentagon. Over the next 5 years, there are no such plans to request any amount of money approaching $1.3 billion. The requests that are in the planning phase are only a portion of that $1.3 billion figure.

I would be glad to go into that in a little more detail in your questioning period.

Thank you very much, Mr. Chairman, for this opportunity. We look forward to the discussion.

[Mr. Armitage's prepared statement follows:]

PREPARED STATEMENT OF RICHARD L. ARMITAGE

MR. CHAIRMAN, I AM VERY PLEASED TO HAVE THIS OPPORTUNITY TO DISCUSS THE SITUATION IN THE PHILIPPINES, PARTICULARLY AS IT RELATES TO OUR SECURITY INTERESTS. THERE HAS BEEN A SURFEIT OF INFORMATION AND COMMENTS ON RECENT PHILIPPINE EVENTS -- SOME OF IT QUITE INACCURATE -- AND I THINK THIS HEARING WILL BE A VALUABLE OPPORTUNITY TO SET THE RECORD STRAIGHT.

AS THE DEFENSE DEPARTMENT REPRESENTATIVE, I WOULD LIKE TO FOCUS MY REMARKS ON THE MILITARY ASPECTS OF THE SITUATION, MOST PARTICULARLY THE RELATIONSHIP BETWEEN MILITARY REFORM AND OUR SECURITY ASSISTANCE PROGRAM AND THE IMPACT OF THE INSURGENCY ON OUR FACILITIES AT CLARK AND SUBIC BAY. ALTHOUGH MY APPRAISAL CONCENTRATES ON THE MILITARY ASPECTS OF THE CURRENT SITUATION, NOTHING IN THIS STATEMENT CONTRADICTS MY PREVIOUS TESTIMONIES AND CRITIQUES OF THE SITUATION IN THE PHILIPPINES. WHAT IS MORE, THE SITUATION CANNOT BE REVERSED SHORT OF A REQUIREMENT FOR A COMPREHENSIVE COUNTERINSURGENCY PLAN THAT INTEGRATES POLITICAL, ECONOMIC, AND SOCIAL LIBERALIZATION WITH REINSTITUTED MILITARY PROFESSIONALISM AND RESOLVE. MOREOVER, I HAVE PREVIOUSLY TESTIFIED, AND CONTINUE TO STRESS, THAT EVEN THE MOST BRILLIANT OPERATIONAL PLAN IS BOUND TO FAIL WITHOUT COMPETENT AND CREDIBLE LEADERSHIP AT ALL LEVELS OF THE COMMAND STRUCTURE. NOW, MORE THAN EVER, THE ARMED FORCES OF THE PHILIPPINES (AFP) MUST BE LED BY OFFICERS OF THE HIGHEST PROFESSIONAL STANDARD AND OF THE DEEPEST LOYALTY TO THEIR COUNTRY. OVERSTAYING GENERALS, WHO DO NOT MEET THESE CRITERIA, WILL STIFLE THE EMERGENCE OF NEW, VIGOROUS LEADERSHIP AND DILUTE THE POSITIVE CONTRIBUTIONS OF OUR SECURITY ASSISTANCE

PROGRAM.

IMPLEMENTING THE REFORM PROGRAMS

YOU MAY RECALL MR. CHAIRMAN, THAT LAST JUNE I PROVIDED MEMBERS OF THE COMMITTEE WITH A STATUS REPORT ON THE REFORM PROGRAMS WITHIN THE ARMED FORCES OF THE PHILIPPINES. I DESCRIBED THESE PROGRAMS AS AN INFRASTRUCTURE OF NEW ORGANIZATIONS AND PROCEDURES WHICH WAS INTENDED TO FOSTER A REFORMATION WITHIN THE AFP. I WAS QUITE CANDID, HOWEVER, IN STATING THAT THIS INFRASTRUCTURE HAD YET TO PRODUCE DRAMATIC AND SIGNIFICANT IMPROVEMENTS. MY ASSESSMENT TODAY IS ONLY A BIT MORE REVEALING. I CANNOT SAY THAT IMPROVEMENTS HAVE BEEN SIGNIFICANT OR DRAMATIC, BUT I DO SAY THAT SOME APPARENT PROGRESS HAS BEEN MADE AS INDICATED BY THE FOLLOWING UPDATE.

-- TO EXPEDITE THE PROCESSING OF ALLEGED HUMAN RIGHTS VIOLATIONS, THE AFP HAS ESTABLISHED A NETWORK OF SPECIAL ACTION COMMITTEES AT REGIONAL COMMANDS THROUGHOUT THE COUNTRY. IN JUNE, I REPORTED THAT THESE COMMITTEES REVIEWED 322 ALLEGED VIOLATIONS AND ADMINISTERED DISCIPLINARY ACTION IN 90 CASES. TO DATE, 470 VIOLATIONS HAVE BEEN PROCESSED AND 117 OFFENDERS PROSECUTED. TO RESTORE DISCIPLINE WITHIN THE RANKS, THE AFP HAS ORGANIZED SPECIAL CORRECTIONAL CENTERS TO RETRAIN MINOR MILITARY OFFENDERS. BY THE END OF THIS YEAR, THE AFP EXPECTS TO HAVE RETRAINED SOME 820 MILITARY PERSONNEL, AS COMPARED TO THE JUNE FIGURE OF 280. I MUST EMPHASIZE THAT THESE FIGURES HAVE NOT BEEN VERIFIED; NEVERTHELESS, WE REMAIN ENCOURAGED THAT A FRAMEWORK FOR REFORM HAS BEEN ESTABLISHED.

-- IN MY EARLIER REPORT, I INDICATED THAT THE AFP INTENDED TO STRENGTHEN READINESS BY FORMING FRESH BATTALIONS SO THAT TROOPS IN THE FIELD COULD BE ROTATED OUT OF INSURGENT AREAS INTO TRAINING PROGRAMS. THE AFP HAS ESTABLISHED 4 NEW BATTALIONS, WITH AT LEAST 5 MORE SCHEDULED TO BE FORMED BY THE END OF THE YEAR. THIS EXPANSION OF ITS OPERATIONAL BASE OFFERS THE AFP A VALUABLE OPPORTUNITY TO ESTABLISH IMPROVED TRAINING PROGRAMS.

-- THE FINAL POINT IN MY JUNE REPORT WAS OUR DETERMINATION TO CORRECT DEFICIENCIES IN MOBILITY, COMMUNICATIONS, AND LOGISTICS, AND ENHANCE THE WELFARE OF THE INDIVIDUAL SOLDIER. DUE TO THE EXCELLENT COOPERATION BETWEEN THE AFP AND OUR MILITARY ASSISTANCE GROUP AND THE RESPONSIVENESS OF OUR SECURITY ASSISTANCE SYSTEM, A TOTAL OF 655 TRUCKS WILL BE DELIVERED BY THE END OF THIS YEAR. THIS INFUSION OF TACTICAL MOBILITY WILL INCREASE THE AVERAGE NUMBER OF TRUCKS ASSIGNED TO EACH COMBAT BATTALION FROM 2 TO 5. AT THE SAME TIME, DELIVERIES OF SPARE PARTS WILL RESULT IN THE REHABILITATION OF APPROXIMATELY 1000 BADLY NEEDED TACTICAL RADIOS. OUR SECURITY ASSISTANCE PROGRAM IS ALSO ENHANCING MORALE BY PROCURING FIELD MEDICAL EQUIPMENT AND BASIC WELFARE ITEMS, INCLUDING UNIFORMS AND BOOTS. SO FAR THIS YEAR, 14,000 BOOTS AND 58,000 COMBAT UNIFORMS HAVE BEEN DISTRIBUTED, WITH AN ADDITIONAL 77,000 UNIFORMS SCHEDULED FOR DELIVERY BY THE END OF THE YEAR.

-- ALTHOUGH NOT COVERED IN MY JUNE REPORT, THE AFP'S PROGRAM TO REFORM THE CIVILIAN HOME DEFENSE FORCE (CHDF) COULD ALSO PRODUCE SIGNIFICANT IMPROVEMENTS IN CIVIL-MILITARY RELATIONS.

COMPOSED OF PART-TIME SECURITY UNITS, THE CHDF HAS BEEN THE MOST NOTORIOUS PERPETRATOR OF HUMAN RIGHTS ABUSES WITHIN THE SECURITY ESTABLISHMENT. IN SOME AREAS IT HAS BEEN USED AS A PRIVATE ARMED FORCE FOR LOCAL POLITICAL OR ECONOMIC INTERESTS. IN OTHER AREAS IT HAS SIMPLY BEEN ARROGANT AND ILL-DISCIPLINED. IN FAR TOO MANY INSTANCES IT HAS BEEN A THREAT TO THE PHILIPPINE PEOPLE INSTEAD OF THEIR PROTECTOR. HOWEVER, WITH MORE STRINGENT RECRUITING REQUIREMENTS, IMPROVED TRAINING, BETTER PAY, AND BY SUBJECTING ITS MEMBERS TO COURT-MARTIAL PROCEDURES, A DISCIPLINED CHDF COULD BECOME A POSITIVE FORCE WITHIN THE COUNTERINSURGENCY EFFORT. WE REGARD THESE MEASURES TO BE AN IMPORTANT PROGRAM FOR REFORM -- ONE THAT WE WILL MONITOR CLOSELY IN THE MONTHS AHEAD.

IT IS NOT MY INTENTION TO OVERSTATE THE AFP'S PROGRESS TOWARD REFORM. IT HAS ONLY JUST BEGUN; IT WILL BE SOME TIME BEFORE WE SEE A REFLECTION OF INCREASED PROFESSIONALISM. I HAVE TESTIFIED THAT IT TOOK TEN YEARS FOR THE AFP TO DECLINE TO ITS CURRENT DISMAL CONDITION. I ALSO SAID THAT IT DOES NOT HAVE TEN YEARS TO BECOME COMBAT EFFECTIVE -- THE VIRULENT COMMUNIST INSURGENTS WILL NOT WAIT THAT LONG. AT THE SAME TIME, IT IS UNREASONABLE TO EXPECT THE ACHIEVEMENT OF DRAMATIC AND SIGNIFICANT IMPROVEMENTS DURING THE SHORT 10-MONTH PERIOD SINCE THE REFORMS WERE INITIATED. NONETHELESS, IT IS THE ADMINISTRATION'S CONVICTION THAT ADEQUATE AMOUNTS OF SECURITY ASSISTANCE (AND WE ARE THE ONLY OUTSIDE SOURCE OF FUNDING FOR THE AFP) AND A REINVIGORATED LEADERSHIP HAVE THE CAPACITY TO PROVIDE A POWERFUL BOOST TO THE REFORMS THAT ARE THE COMMON OBJECTIVE OF THE CONGRESS AND THE

ADMINISTRATION. BUT TO THE EXTENT THAT LEADERSHIP, UPWARD MOBILITY, AND STRICT ACCOUNTABILITY FOR CORRUPTION ARE NOT ADDRESSED, THE AFP WILL FALL SHORT OF THE GOALS NECESSARY TO FUNCTION AS A TOTALLY COHERENT AND NATION-BUILDING ENTITY. THE ADMINISTRATION HAS CLEARLY CONVEYED OUR CONCERN FOR RAPID PROGRESS ON THESE FRONTS.

SECURITY ASSISTANCE IN SUPPORT OF REFORM

THIS CONVICTION IS BASED ON THE FACT THAT OUR SECURITY ASSISTANCE PROGRAMS ARE SPECIFICALLY DESIGNED TO PROMOTE MILITARY REFORM -- A LINKAGE THAT IS NOT WELL UNDERSTOOD. BY EMPHASIZING TROOP WELFARE, COMMUNICATIONS, TRAINING, AND MOBILITY, OUR ASSISTANCE ENHANCES THE AFP'S MORALE AND DISCIPLINE AND, THEREFORE, ENCOURAGES AND COMPLEMENTS REFORM. WITH NEW UNIFORMS AND BOOTS, SOLDIERS ARE REMINDED THEY ARE MEMBERS OF A MILITARY ORGANIZATION WHICH HAS A RESPONSIBILITY TO THE NATION AND NOT PART OF AN UNDISCIPLINED MOB. WITH BETTER MEDICAL FACILITIES, INCLUDING MORE VEHICLES FOR MEDICAL EVACUATION, THE SOLDIER BEGINS TO UNDERSTAND THAT HIS LIFE AND WELL BEING ARE IMPORTANT TO THE NATION AND HIS CHANCES FOR SURVIVING COMBAT WOUNDS ARE INCREASED. WITH IMPROVED COMMUNICATIONS, UNIT COMMANDERS ARE ABLE TO EXERT GREATER CONTROL OVER THEIR TROOPS AND ENGENDER HIGHER STANDARDS OF DISCIPLINE DURING COMBAT SITUATIONS, AN ABILITY WHICH IS ESSENTIAL IN MILITARY OPERATIONS.

THERE IS, OF COURSE, A CONTRARY VIEW THAT REJECTS THIS APPROACH AND ASSERTS THAT SECURITY ASSISTANCE SHOULD BE REDUCED OR ELIMINATED ENTIRELY UNTIL THERE IS SUBSTANTIAL PROGRESS TOWARD REFORM. THERE ARE TRAGIC FLAWS TO THIS LOGIC, IN MY VIEW. FIRST,

THE COMMUNIST NPA WILL NOT WAIT. WHILE THE AFP IS FLAILING ABOUT IN AN AGONY OF SHORTAGES, THE NPA IS DRIVING RELENTLESSLY TOWARD THEIR GOAL. AND SECONDLY, THE CADRE OF CAPABLE AFP OFFICERS AND NCO'S, WHO COMPROMISE A MAJORITY OF THE AFP, WOULD BE FURTHER PRESSED TO FULFILL BASIC COMBAT MISSIONS WITH LESS RESOURCES -- LET ALONE UNDERTAKE NEEDED REFORMS. I VIEW THE COHESION OF THE AFP AND ITS SUPPORT OF THE PHILIPPINE CONSITUTIONAL PROCESS AS KEY TO ANY LONG-TERM STABILITY. AS A FUNDAMENTAL NATIONAL INSTITUTION, THE AFP CANNOT BE IGNORED. IT WILL CONTINUE TO EXIST UNDER THE CURRENT GOVERNMENT AND SUCCESSOR GOVERNMENTS IRRESPECTIVE OF THE RESIDENT OF MALACANANG PALACE.

IT IS UNCLEAR THAT SECURITY ASSISTANCE USED AS A LEVER CAN ACHIEVE REFORMS WITHIN THE AFP; BUT IT IS QUITE CLEAR THAT AN AID REDUCTION OR ITS ELIMINATION WOULD DECREASE OUR INFLUENCE WITHIN THE PHILIPPINE MILITARY ESTABLISHMENT AND SEVERELY LIMIT THE AFP'S ABILITY TO EFFECT CHANGES ON THE BATTLEFIELD. IT IS ALSO CLEAR THAT THE MORALE AND DISCIPLINE OF THE PHILIPPINE SOLDIERS WOULD SUFFER, AND ABUSES WOULD SURELY INTENSIFY.

I AM NOT ALONE IN THIS CONCLUSION, MEMBERS OF THE MODERATE OPPOSITION ARE BEGINNING TO UNDERSTAND THAT A PROPERLY DESIGNED SECURITY ASSISTANCE PROGRAM CAN BE A POSITIVE INFLUENCE FOR REFORM. FOR EXAMPLE, LAST SPRING JAIME ONGPIN, ONE OF THE FOREMOST MEMBERS OF THE MODERATE OPPOSITION, OPPOSED MILITARY AID. LAST MONTH, IN A SPEECH TO THE CARNEGIE INSTITUTE, HE ENDORSED OUR CONTINUED SUPPORT OF THE AFP WITH SECURITY ASSISTANCE.
AS THE OBJECTIVES OF OUR SECURITY ASSISTANCE PROGRAM BECOME

BETTER UNDERSTOOD AND THE EFFECTS OF OUR ASSISTANCE BECOME MORE APPARENT, WE EXPECT INCREASED LEVELS OF NONPARTISAN SUPPORT WITHIN THE PHILIPPINE BODY POLITIC.

THE STATUS OF THE INSURGENCY

WE ALSO BELIEVE THAT THIS NONPARTISAN SUPPORT IS BEING REINFORCED BY THE DIRECTION OF THE INSURGENCY. WITHIN COMMUNIST CONTROLLED AREAS, THE TRUE REALITY OF THE NPA -- THAT IT IS AN INSTRUMENT OF REPRESSION -- IS BEGINNING TO TAKE HOLD. POWER IS MONOPOLIZED; MONEY IS EXTORTED; OFFICIALS ARE ASSASSINATED; AND INVOLUNTARY PARTICIPATION IN STRIKES AND DEMONSTRATIONS IS ENFORCED. THIS MALIGNANT IMAGE OF THE CPP/NPA IS BECOMING MORE WIDELY APPRECIATED, AND SEGMENTS OF THE MIDDLE CLASS, WHICH HAD ONCE BEEN READY TO EMBRACE ALMOST ANY ALTERNATIVE TO THE MARCOS GOVERNMENT, NOW ARE BEGINNING TO UNDERSTAND THAT A COMMUNIST TRIUMPH WOULD MEAN THE END OF DEMOCRATIC TRADITIONS AND VALUES IN THE PHILIPPINES, A PROSPECT THAT SHOULD HELP RENEW AND INVIGORATE DEMOCRATIC PROCESSES.

MY ASSESSMENT OF THE PROSPECTS FOR A POTENTIAL COMMUNIST TRIUMPH REMAINS ESSENTIALLY UNCHANGED. THE TRENDLINES CONTINUE TO POINT IN THE WRONG DIRECTION, AND THE NUMBERS OF ARMED NPA GUERRILLAS APPROACH 16,500. INITIATIVE STILL LIES WITH THEM, AND THEIR POLITICAL IDEOLOGY, BACKED BY ARMED ELEMENTS, CONTINUES TO SPREAD. APPROXIMATELY 20% OF THE VILLAGES ARE INFLUENCED OR CONTROLLED BY THE CPP. ALTHOUGH THERE IS EVIDENCE THAT ORGANIZATIONAL AND IDEOLOGICAL PROBLEMS MAY BE HINDERING THE EXPANSION OF NPA FORCES AND RESISTANCE FROM MIDDLE CLASS ELEMENTS MAY BE

COMPLICATING THE CONSOLIDATION OF POWER WITHIN COMMUNIST CONTROLLED AREAS, I CONTINUE TO ESTIMATE THAT A STRATEGIC STALEMATE IS POSSIBLE WITHIN 3-5 YEARS. IMPROVEMENTS WITHIN THE AFP AND ORGANIZATIONAL AND LOGISTIC COMPLICATIONS WITHIN THE NPA COULD DELAY THIS OUTCOME. HOWEVER, THE PROGRESS TOWARD REFORM DESCRIBED EARLIER IN MY TESTIMONY, THOUGH OFFERING HOPE IF VIGOROUSLY PURSUED, IS STILL INSUFFICIENT TO ARREST THE GROWTH OF THE INSURGENCY.

TENURE OF THE BASES

SOME CYNICS CHARGE THAT OUR DEFENSE INTEREST IN THE PHILIPPINES IS BASED ONLY ON RETAINING ACCESS TO MILITARY FACILITIES AT CLARK AND SUBIC. SPEAKING FRANKLY, THESE FACILITIES ARE EXTRAORDINARILY IMPORTANT TO THE UNITED STATES. THEY ARE ALSO IMPORTANT TO OTHER COUNTRIES IN THE REGION, INCLUDING THE PHILIPPINES, WHICH IS MUCH NEARER TO SOVIET BASES IN VIETNAM THAN THE U.S. OR EVEN SOME ASEAN COUNTRIES.

OUR SECURITY ALLIANCE WITH THE PHILIPPINES IS, HOWEVER, INFINITELY MORE COMPLEX. IT DERIVES FROM A BROADER, SPECIAL RELATIONSHIP THAT HAS DEVELOPED BETWEEN OUR COUNTRIES OVER MANY YEARS. WHAT IS MOST IMPORTANT FOR U.S. INTERESTS IS THAT THE PHILIPPINES REMAINS A STABLE, DEMOCRATICALLY-ORIENTED ALLY AND A BULWARK OF FREEDOM IN SOUTHEAST ASIA.

IT IS FOR THIS REASON THAT THE U.S. IS ENCOURAGING THE REINVIGORATION OF DEMOCRATIC INSTITUTIONS, REVITALIZATION OF THE ECONOMY, AND REFORM OF THE ARMED FORCES. IT IS SPECIFICALLY IN SUPPORT OF THE AFP'S OBJECTIVES OF RESTORING MILITARY PROFESSIONALISM AND IMPROVING ITS CAPABILITY TO DEFEAT THE INSURGENTS

THAT WE PROVIDE SECURITY ASSISTANCE TO THE PHILIPPINES. THE U.S. IS THE ONLY REAL SOURCE OF OUTSIDE FUNDING.

THE GROWTH OF THE INSURGENCY AND ITS ULTIMATE TRIUMPH WOULD COST US THE USE OF OUR FACILITIES ON THE PHILIPPINE BASES. ON THE OTHER HAND, DESPITE MANILA PRESS RHETORIC AND OCCASIONAL STATEMENTS TO THE CONTRARY, WE BELIEVE THAT OUR PRESENCE WILL CONTINUE TO BE WELCOMED BY THE GREAT MAJORITY OF THE PHILIPPINE PEOPLE AS WELL AS BY ANY FORESEEABLE NON-COMMUNIST GOVERNMENT. IN VIEW OF THIS WIDESPREAD SUPPORT AND BECAUSE THERE ARE NO ATTRACTIVE ALTERNATIVES, I WOULD LIKE TO STATE CLEARLY AND FOR THE RECORD THAT CURRENTLY WE ARE NOT PLANNING TO RELOCATE OUR FACILITIES FROM THE PHILIPPINES. INDEED, WE HAVE EVERY REASON TO EXPECT THAT WE WILL BE THERE LONG AFTER THE CURRENT MILITARY BASES AGREEMENT BECOMES INDEFINITE (SUBJECT TO CANCELLATION ON ONE YEAR'S NOTICE BY EITHER PARTY) IN 1991 AND THAT ARRANGEMENTS FOR CONTINUED ACCESS CAN BE ARRIVED AT WITH ANY NON-COMMUNIST GOVERNMENT. CONSEQUENTLY, WE HAVE SUBMITTED MILITARY CONSTRUCTION BUDGETS THAT ARE CONSISTENT WITH SUCH A TENURE. OUR PROPOSED CONSTRUCTION PROJECTS ARE A MIX OF OPERATIONAL IMPROVEMENTS, ENHANCED LIVING FACILITIES FOR OUR SERVICE PERSONNEL, AND PRUDENT MEASURES TO INCREASE THE SECURITY OF THE FACILITIES. THE COST OF THE PROJECTS OVER THE NEXT SEVERAL YEARS, AS PROJECTED IN AIR FORCE AND NAVY PLANNING DOCUMENTS, WILL BE ONLY A PORTION OF THE ERRONEOUSLY REPORTED $1.3B THAT HAS BEEN REFERENCED IN RECENT PRESS STORIES. THE COST TO STAY IN THE PHILIPPINES WILL BE MODEST WHEN COMPARED TO THE BILLIONS OF DOLLARS THAT WOULD BE

REQUIRED FOR A RELOCATION, NOT TO MENTION THE ACCOMPANYING REDUCTIONS IN OPERATIONAL CAPABILITIES AND INCREASED HARDSHIPS TO OUR SERVICEMEN AND SERVICEWOMEN.

OUR PLANS TO REMAIN IN THE PHILIPPINES ARE NOT OBLIVIOUS TO THE INCREASING THREAT OF THE INSURGENCY. WE ARE TAKING PRUDENT ACTIONS TO INCREASE SECURITY, INCLUDING AN UPGRADE OF PHYSICAL SECURITY, INCREASED TRAINING IN FACILITY SECURITY, AND CLOSER COORDINATION WITH PHILIPPINE COMMANDERS RESPONSIBLE FOR PERIMETER SECURITY AT THE BASES. OUR MILITARY ASSISTANCE CONTRIBUTES TO THE SECURITY OF THE FACILITIES. BY ASSISTING IN THE DEVELOPMENT OF A COMBAT EFFECTIVE AFP, WE HELP CREATE A MORE SECURE ENVIRONMENT FOR THE OPERATION OF OUR FACILITIES. MOREOVER, A TOP PRIORITY OF OUR SECURITY ASSISTANCE BUDGET IS TO PROVIDE FOR INCREASED SUPPORT FOR PHILIPPINE BASE SECURITY PERSONNEL.

AS YOU MIGHT EXPECT MR. CHAIRMAN, OUR DEFENSE PLANNERS, FACED WITH GLOBAL SECURITY COMMITMENTS, HAVE EXAMINED ALTERNATIVES TO OUR PRESENT FORCE STRUCTURE AND BASING NETWORK. THIS EXAMINATION IS CONTINUING. IN FACT, OUR EVALUATION OF BASE REQUIREMENTS IN THE PACIFIC HAS BEEN ONGOING SINCE THE MID-SEVENTIES. A PRODUCT OF THIS PROCESS WAS THE NORTHERN MARIANAS LEASE ARRANGEMENT WHICH WAS NEGOTIATED IN THE LATE SEVENTIES AND FUNDED BY THE CONGRESS EARLY IN 1983. I WOULD LIKE TO EMPHASIZE THAT WE CONSIDER THE NORTHERN MARIANAS LEASE TO BE A PRUDENT INVESTMENT WHICH IS INTENDED TO ACCOMMODATE A WIDE VARIETY OF CONTINGENCIES IN THE WESTERN PACIFIC. BECAUSE OF THE TIMING OF OUR LEASE ARRANGEMENTS IN THE NORTHERN MARIANAS, IT IS CLEAR THAT OUR INITIATIVE TO

ACQUIRE BASING RIGHTS THERE WAS NOT INTENDED AS A SPECIFIC RESPONSE TO THE SITUATION IN THE PHILIPPINES. IT IS EQUALLY CLEAR, HOWEVER, THAT THE LEASED TERRITORY, ALONG WITH OUR FACILITIES IN GUAM, COULD OFFER AN OPTION THAT WOULD HELP US MEET OUR SECURITY COMMITMENTS IN ASIA IF ANY RELOCATION IN THE WESTERN PACIFIC BECAME NECESSARY. THIS IS NOT AN ATTRACTIVE OPTION, AND REPRESENTATIVES OF THE DEPARTMENT OF DEFENSE, IN NUMEROUS HEARINGS BEFORE THE CONGRESS, HAVE UNDERSCORED THE NEGATIVE CONSEQUENCES OF A RELOCATION. GEOSTRATEGIC ADVANTAGE WOULD BE LOST; SKILLED LABOR WOULD BE MORE EXPENSIVE AND NOT READILY AVAILABLE; SUNK COSTS WOULD BE ENORMOUS; AND OPERATIONAL ASSETS WOULD HAVE TO BE INCREASED IF WE WERE TO MAINTAIN ESSENTIAL OPERATIONAL CAPABILITIES. IN SHORT, MR. CHAIRMAN, THERE IS NO SINGLE LOCATION OR COMBINATION OF LOCATIONS IN THE WESTERN PACIFIC THAT CAN REPLICATE ALL THE ADVANTAGES THAT WE CURRENTLY ENJOY IN THE PHILIPPINES.

CONCLUSION

IN CONCLUSION, MR. CHAIRMAN, I WISH TO REITERATE OUR CONVICTION THAT OUR SECURITY ASSISTANCE PROGRAMS REINFORCE EFFORTS TOWARD REFORM; THAT WITHOUT VIGOROUS REFORM, A COMMUNIST TRIUMPH APPEARS LIKELY; AND THAT A COMMUNIST VICTORY WOULD FORCE US TO RELOCATE OUR DEFENSE FACILITIES FROM THE PHILIPPINES TO THE DETRIMENT OF OUR VITAL INTERESTS THROUGHOUT ASIA AND THE INDIAN OCEAN. THEREFORE, WE BELIEVE THAT IT IS IN OUR OWN NATIONAL INTEREST, AS WELL AS IN THE INTEREST OF THE PHILIPPINES, TO PROVIDE ADEQUATE SECURITY ASSISTANCE OF AN APPROPRIATE NATURE TO AN ALLY WHO CLEARLY NEEDS HELP. AT THE SAME TIME, WE SHALL NOT BE REMISS IN CONTINUING OUR DIALOGUE WITH THE GOVERNMENT OF THE PHILIPPINES TO ENCOURAGE THE REVITALIZATION OF ECONOMIC, POLITICAL, AND MILITARY INSTITUTIONS WHICH WOULD ALLOW OUR LONG-TIME FRIEND AND ALLY TO PARTICIPATE FREELY IN THE GROWTH AND DEVELOPMENT WHICH GENERALLY MARK THE OTHER DYNAMIC NATIONS OF ASIA.

The CHAIRMAN. Thank you very much, Mr. Armitage.

If I have unanimous consent, the Chair will declare that in this first round of questioning we will have a limit of 10 minutes per Senator.

I would like to request the cooperation and indulgence of committee members this morning in adopting a different pattern for our questioning. So frequently Senator Dan Evans of Washington has been here early and has stayed and has been the last one.

So, this morning, the Chair is going to yield the first questions to Senator Evans. And, correspondingly, my suggestion would be that Senator Kerry would be allowed the first questions on the Democratic side. He has been deeply interested and has played a significant role in this area in the committee deliberations this year.

So, unless there is strenuous objection, we will proceed in reverse order this morning and will work our way around the table toward the center.

I will call now upon Senator Evans.

Senator EVANS. Thank you, Mr. Chairman.

I suspect that, over the years, Senator Zorinsky has always suffered from being last in the rollcall, and perhaps some day in the Senate we should start from the back and go forward on rollcalls, just to even things out.

I do appreciate this opportunity.

Mr. Wolfowitz, you mention in your testimony on page 2, "Specifically, we support the revitalization of democratic institutions, the restoration of a free market economy, and reinvigoration of military professionalism." By those terms, you are suggesting that, in each of those cases, the Philippines, at one time or another, has had high marks in each of those areas.

Is that essentially it? Has there really been a loss in each of these areas from a high mark in the past, or are we in the process of building from a lower level in some of those areas such as democratic institutions, a free market economy, and military professionalism?

Mr. WOLFOWITZ. Well, one should not glorify the past as a golden age, but, basically, yes, I think it is true. It is a matter of returning to things that Filipinos have done well in the past and know how to do well. That is one of the things that makes this situation very different from some others and I think, basically, a good deal more hopeful.

If one just takes the area of fighting the insurgency, one of the classic cases of how to do it right was the way the Philippine military under the leadership of Magsaysay fought the Huks in the 1950's. In a sense, as I say somewhere else, you could say that in that area they wrote the book on how to do it, and the problem is to get them to follow it now.

Senator EVANS. You mention the Huks and the Moros a little later on. Was the nature of those two insurgencies essentially the same as the current one? It is a different generation, of course, but are they essentially coming from the same political and other background?

Mr. WOLFOWITZ. Well, each of those is quite different, and I think the present one is a good deal tougher to deal with. Maybe

Mr. Armitage would actually be the best person to speak to the details of that answer.

Senator EVANS. Mr. Armitage.

Mr. ARMITAGE. If I may, Senator, in the case of the Huks, you had a small agrarian-based insurgency, almost exclusively oriented to Luzon, which contended themselves primarily with being in one central location and not actually reaching out throughout the whole of the island structure of the Philippines.

You have quite a different situation with the present insurgency in that the leadership of the insurgency is composed basically of intellectuals—fairly young and energetic intellectuals, though the rank and file of the party and certainly the NPA may be more along the lines of the rank and file that existed among the Huks. But the leadership is significantly different. They have made constant efforts to make their philosophy much wider spread.

One of the interesting problems was that the advent of martial law in 1972 initially forced the NPA and the CPP to go underground. But what it might really have done is to force them to spread out their activities through as many of the 73 provinces as possible. It might have, in a sort of perverse way, aided in the dissemination of this philosophy.

Senator EVANS. In your judgment, is the leadership essentially indigenous to the Philippines?

Mr. ARMITAGE. Of the NPA/CPP?

Senator EVANS. Yes.

Mr. ARMITAGE. Yes, indeed that is correct. There are some limited sources of funds from the United States and from Eastern and Western Europe. But the leadership, so far as we know and from every indication, appears to be all indigenous.

Senator EVANS. You would not suggest that there was any significant influence of other nations playing around in Philippine politics?

Mr. ARMITAGE. No, I have no indication.

Mr. WOLFOWITZ. No.

Senator EVANS. Mr. Wolfowitz, or maybe it was you and Mr. Greenleaf, both mentioned the inflation rates of a year ago and that they have come down dramatically.

What are the major factors that have brought that inflation rate down so dramatically? Is that, in your view, the beginning of something of an economic turnaround in the Philippines?

Mr. WOLFOWITZ. Before answering that, Senator, let me make just one important caveat to the answer we gave you to the last question. It would have to be no, not at the moment. But I would expect the Soviets are very interested in how they can play around in this area, and there are some increasing signs that the insurgents may be turning from their past record of nearly total independence to possibly looking for some outside help.

Senator EVANS. Let me ask about one other element of that question.

To what degree would you judge that the support of the Communist-led insurgency is made up of disaffected democrats, or disaffected democratic-believing persons who are just so fed up with the current administration that they are joining, even though they do not hold some of the same philosophical beliefs?

Mr. WOLFOWITZ. I think that is classically the case with insurgencies of this kind, that a lot of people join without knowing what they are joining. Indeed, starting with the terminology of calling themselves the "New People's Army," they conceal what their aims are, they conceal that they are a Communist organization, they try to posture themselves as simply in favor of very simple things that a lot of simple people believe in. So that is one of the reasons why political and economic form can help to reduce the recruitment base of the insurgency.

But it should not leave us with any illusions about what they would be like. The people running the show have a very clear, and I would say, very ruthless idea of what they are trying to accomplish.

Mr. Greenleaf might be the best one to address your question on the economic changes.

Mr. GREENLEAF. I would say, Senator, that, as you pointed out and as we mentioned in our testimony, in 1984 the inflation rate really did reach as high as about 64 percent at times and was roughly 50 percent during the course of the year, and is now down in the 15 percent range.

Of course, one of the reasons that the inflation rate has gone down is that there has been an effort by the IMF and the Filipinos. They made an agreement at the end of 1984, and I think that the level of confidence in the economy has somewhat improved. Although the level of economic activity is down. Speculation has somewhat gone down and interest rates have gone down as well.

Senator EVANS. Generally, at what level are interest rates now?

Mr. WOLFOWITZ. In the neighborhood of 20 percent, which, in real terms, with inflation running the way it is, is not that bad.

Senator EVANS. Mr. Greenleaf, you mentioned on page 2 that the Government's inability to meet monetary targets resulted in deferral of a scheduled IMF disbursement and new, less restrictive targets were set and the Philippines have stayed comfortably within those limits.

Mr. GREENLEAF. That's right.

Senator EVANS. This really is not in the nature of a question, but I guess is more of a comment. That sounds vaguely familiar to the monetary limits we set in our own country, could not meet, and then set less restrictive limits this year and have comfortably met them.

Are we on a parallel with the Philippines?

Mr. GREENLEAF. I think you indicated that was a comment and not a question. [Laughter.]

Senator EVANS. I guess I did.

In your prepared statement you talk about this: "Our feeling is that privatization and deregulation of the economy can effectively be pursued through the financial sector." That sounds to me like you believe that there are no barriers in the way in terms of the monopolies or the cronyism or the other elements of management of the economy that we hear about.

Isn't that a significant impediment to what you are talking about?

Mr. GREENLEAF. I think, No. 1, that the question of some of the crony capitalist issues is important, and in terms of the reforms

that we have pursued, Senator, we have focused very clearly on aspects of the crony capitalist monopolistic system, such as in the National Food Authority, which I would be happy to talk about later on, and which I mentioned in my testimony.

But, in addition to that, we have felt that it was important to work in the financial sector to try to open up credit availability at market rates to small farmers in particular, and that is why we have also focused a very large portion of our development assistance money or a rural credit program tied in with the World Bank effort in that area.

So, my answer, basically, is that both of these areas are important and we are working in both of them.

Senator EVANS. Mr. Armitage, you mentioned the civilian home defense force and some of their activities, which have been out of line, apparently.

To what degree are they governed by the armed forces itself? What is the actual relationship between the two? There may be a followup question after that.

Mr. ARMITAGE. Well, "somewhat out of line" is a rather benign statement. Their behavior has been abusive in the extreme in many, many cases, as I tried to point out in my testimony.

For some time, as they are armed, I was of the opinion that perhaps the armed forces of the Philippines was taking some of the rap for the misbehavior and the abuses of the civilian home defense force. It is my understanding that they are being brought under the codes of the Armed Forces of the Philippines now, and by doing so, the acting chief of staff, General Ramos, hopes to be able to enforce discipline and to enforce accountability in the CHDF.

I think it is known throughout the Philippines as the most abusive element.

Senator EVANS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Evans.

Senator Kerry.

Senator KERRY. Thank you, Mr. Chairman. Thank you for allowing me the privilege of asking questions at an early stage. I appreciate it.

Mr. Secretary, we have had a chance to talk on a number of occasions, and I have appreciated your candor on those occasions as I do now. You paint an obviously negative picture, which I think is a realistic picture.

I would just like to clarify a couple of things before I pursue another line of questioning.

First, the Marcos government is currently maintaining that the United States is not living up to our bases agreement with respect to the aid. I think it is important for the record to have this clarified.

Correct me if I am wrong, but I think the base agreement only guarantees that the President, President Reagan, will make his best efforts to provide the $450 million in military aid and the $450 million in ESF over the period of the 5 year agreement. Isn't that accurate?

Mr. WOLFOWITZ. That is correct, sir, yes.

Mr. ARMITAGE. With your permission, sir, it was $425 million in total security assistance and $475 million, I believe, in economic assistance.

Senator KERRY. All right, fine—for a total of $900 million.

Mr. ARMITAGE. Yes, sir.

Senator KERRY. If the President were to succeed in obtaining that total of $900 million in aid as "rental for the bases," we would only be obligated to provide that by the end of the 5-year period and, therefore, meet our obligation, not necessarily doing so on an annual basis.

Isn't that correct?

Mr. WOLFOWITZ. I would want to go back and check the details of the letter, but I believe it is pretty clear in there that it would be in equal 5-year increments; but one could argue not necessarily each of the components in equal 5-year increments.

Senator KERRY. Let me try to get to what I think is really the issue is at stake here and get a sense from you of where you think we are going and what are our options.

Reading from the Newsweek article this week, which addresses the issue of whether or not President Marcos was responding to the need for reforms, the judgment was made by one analysis who said that it does not appear that the problems are serious enough for him to rejuggle his priorities.

Then it says:

> Those priorities seem to include protecting an interlocking matrix of family and cronies who have prospered over the past twenty years, at times achieving great wealth at the nation's expense. Beyond that matrix, life in the Philippines is becoming ever more grim. Manila's shanty-town ghettoes are rife with strikes and demonstrations. According to the latest U.S. intelligence estimates, some 15,000 armed guerrillas are operating in up to 62 of the nation's 73 provinces, and their ranks are growing at a rate of 20 percent a year.

Whether you agree with the rate or not, they are growing, and we all agree with that.

Last week, Gen. Fidel Ramos, the acting armed forces chief of staff estimated that the rebellion had cost 4,500 lives this year. Meanwhile, elements within the military continue to abuse the civilian population and death squads are increasingly terrorizing the villages and towns. Vast pockets of the countryside have fallen into grinding poverty.

On the island of Negros, where many unemployed migrant workers subsist on a diet that consists largely of sugar cane, Roman Catholic Bishop Antonio Fortich sees "a social volcano about to explode."

I think all of your assessments and all of the judgments which we have heard agree that the curve is downward, that the trend is downward, that the reforms are not taking place. Notwithstanding a Laxalt visit, notwithstanding Ambassador Bosworth's efforts, notwithstanding congressional resolutions, notwithstanding a host of efforts by this country, there seems to be a willingness and a judgment by President Marcos that all he needs to do is pay lip service to those concerns, but he can survive.

Therefore, in terms of our options, what I hear you saying about the bases and about democracy, in the context of what I have described developing in the Philippines, is it fair to say that the pri-

mary goal of our policy now is that of trying to encourage and provide the best opportunity for democracy to flourish and to survive in the Philippines. Is that the heart of our policy?

Mr. WOLFOWITZ. I think I would say democracy, free markets, and a professional military. I think they are all part of a package. But yes, I think that is the heart of our policy.

Senator KERRY. And the bases are ancillary to that part of the policy?

Mr. WOLFOWITZ. It certainly is our view that if those reforms are not undertaken, eventually we will face the loss of the bases and a great deal worse besides. So, if that means ancillary or secondary, they are not the dominant or driving part of our policy.

That is absolutely right.

Senator KERRY. So we are both on the same wavelength of agreeing that if these reforms do not take place, we are agreed there is an inevitability to what will happen there and that will include the loss of the bases—is that correct?

Mr. WOLFOWITZ. It's basically correct. I am sorry to keep quibbling, but I mean inevitability in a very long-term sense.

I think it is important to stress that when we have made statements, as I have and as Secretary Armitage has stated, that in 3 to 5 years, for example, we could face a strategic stalemate, I think it is important to emphasize that is not the collapse or loss of the country, either, but it is civil war on a massive scale. And remember, the Philippines, for comparison purposes, is a country that is, I think, 10 times the population of El Salvador. If one sees a civil war on a massive scale in that country, one is talking about a problem that we ought never to have to face because reforms taken now can prevent that from happening.

So it is a little hard for me to use the word "inevitable" about something that is 5 or 10 years in the future, but that is the direction in which we are heading.

Senator KERRY. Those are the best assumptions at least that we can make in terms of making policy.

Mr. WOLFOWITZ. That's right.

Senator KERRY. Now, in that light, let me quote from an October 28 edition of the Washington Post:

> While Washington has shown heightened concern recently about the Communist insurgency's gains here [meaning in the Philippines], the radical left shows no indication of readiness yet to make a major push either militarily or through popular demonstrations to unseat the 20-year-old Marcos government. Conscious of the premature drive that led to the collapse of a Communist rebellion in the 1950's, the insurgents warily chip away with slowly escalating but still relatively small-scale attacks in the provinces, while trying to build up their following in the cities to maintain pressure on the government.

When I was in the Philippines this April, almost every member of the opposition expressed to me their concern about this chipping away process and the lack of movement by Marcos, and the fact that, in essence, the NPA's strategy is almost to keep Marcos in power. They consider him the best recruiter they have right now.

If that is true, and if what you have described about assumptions we make, about loss of bases if there is a violent upheaval, then isn't the only best chance that we have to influence what happens there—and I think we all agree our options are limited—are the

1986 elections? Isn't that the key to which U.S. energies ought to be focused—the 1986 elections?

In other words, if we cannot foster an opposition that has an opportunity to express itself and hopefully have a peaceful transferal of power, and Marcos succeeds in getting beyond that, given your 3- to 5-year estimation on a military stalemate, haven't we kind of locked in those worst-case assumptions we are making?

Mr. WOLFOWITZ. I guess I am hearing two different questions, two important ones.

First of all, there is the key importance of the 1986 elections. I agree with you. I think they are crucial. They are not uniquely crucial. If the 1986 elections went perfectly well but the military reforms go to hell and the military goes downhill, it will not be positive. If the economy does not turn around, the elections, by themselves, will not do it.

But the elections are very important in the whole process. As a matter of fact, I think effective military reform is an important part of making sure that the elections can be held in an atmosphere that is both peaceful and clean.

The other part of your question, I think, is whether there is a point of no return that one passes. It is hard to say. I think each month that is wasted or used badly means that the effort to turn the thing around has to be that much bigger and that much more dramatic.

I do think, right now, that the situation is one that would respond rather rapidly to a dramatic program. To reinforce the point I think you are making about the elections, if there were dramatic steps that made it clear that these elections are going to be clean and fair, it would have an effect not only on people's perceived hopes for the future and their perceptions of the legitimacy of the government, but it would also make investors more confident and the economy would improve.

It is also important to remember, or to be cautious, I think, about sort of prejudging what the results of an election have to be. We often talk to people in the Philippines who are partisan as well as patriotic, and the views that we hear reflect both genuine concerns about the country and their own partisan views.

There was a poll conducted by a basically opposition group called "The Bishops' and Businessmen's Council," that I think came out in early September or late August. One of the very startling results of that poll, I think particularly to the people who sponsored it, was that President Marcos still had a surprisingly high degree of support. I am trying to see if I have the figures here. But the figures were something like 44 percent indicating they were satisfied with his performance against only 23 percent that were dissatisfied.

That surprised a lot of people. It surprised the people who sponsored the poll, and we ought to remember that a free and fair election might produce a result that is not necessarily going to be to the liking of the opposition.

But I think legitimizing government through elections that are perceived as free and fair is very important, regardless of the outcome.

Senator KERRY. Let me just ask a quick last question, a sort of bottom-line question tied to that.

Given the history we have been through in terms of the visits by people and the efforts to get reforms and your mutual assessment of the lack of progress, isn't the only significant step left to us, if we are going to take that position that tries to push democracy rather than the bases, to withhold aid in one form or another because if we do not, we are simply becoming part of the status quo, and that is, in fact, being skillfully played by the NPA right now to our disadvantage?

Mr. WOLFOWITZ. One has to remember, Senator, that there are ways we can make the situation worse.

We could put a lot of pressure on this government by taking actions designed to ruin the economy totally and to destroy the effectiveness of the military, and that would not help our cause either.

I think it is very important that we not create the impression that the United States is pulling out of the Philippines, losing interest in the Philippines, unwilling to commit ourselves to the Philippines.

I think, frankly, that the kind of statements we ought to be making is that if we had the right kind of response from the Philippine Government, our level of effort probably ought to be a lot higher.

I do not want to get into trouble with Assistant Secretary Murphy—Assistant Secretary of State for near East and South Asian Affairs—by making some invidious comparison, but I think our strategic interests in the Philippines are pretty damn large and we are putting $800 million a year into Pakistan because our strategic interests there are important.

I think if we had the right kind of programs in the Philippines that justified larger efforts, we might be thinking about larger efforts.

I would have major difficulty with a position that seemed to suggest we are simply going to have nothing to do with the country.

Senator KERRY. Well, I am not suggesting that.

But I think the problem is if you do not take some kind of action like that, you get locked into a catch-22, which I think exists in your approach. If we do not do that, we send all the wrong messages to the opposition. We don't open the door for them. We send the right messages from the perspective of the NPA. Marcos then sees no significant substantive change in policy. He can deal with visits from Senator Laxalt. He can deal with visits from Senators and others as long as he maintains control of the election process and goes through to 1987 or beyond.

From his perspective, that is survival.

It seems to me that the economy, given the flight of $30-plus billion, the lack of investment, and all the other things, simply will not change unless those major institutional changes that we both seek begin to occur.

If he does not feel any reason to have to make them happen, and he does not seem to now, they are not going to happen.

If they do not happen, I think we all know what is going to happen there. We may have an involuntary separation of involvement with the Philippines.

So I am not sure we have many options left.

But I would simply say, Mr. Chairman, that I think we share the belief that if there were a massive effort on all three of the fronts you have described—economic, political, and military—I do not believe it is too late in the Philippines. I am convinced that those changes occurring now could solve the problem.

But I am just as convinced that if we do not exercise our options to leverage those changes, they will not happen; and if they do not happen, I believe there is an inevitability as to what will take place.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Kerry.

Senator Kassebaum.

Senator KASSEBAUM. Thank you, Mr. Chairman.

Mr. Wolfowitz, my apologies for missing the testimony given by the witnesses, and perhaps this has been addressed.

Is there any effort on our part to maintain some contact and fairly consistent contact with the NPA?

Mr. WOLFOWITZ. We try to find out everything we can about their activities, but not contact with them in the sense I think you are implying by your question.

But we do very actively seek to maintain contact with virtually every element of the democratic opposition.

There is a very important difference, and one ought to understand what the NPA is like. These people are committed, ruthless revolutionaries with a doctrine that says it is fine to execute people if they stand in the way of the revolution, and that is why people are being assassinated at a steady pace every day. We are concerned about Government "salvagings" and killings. But we have to be even more concerned, I think, about these people, the NPA, and the doctrine that they have that really has no limits to it.

Senator KASSEBAUM. So this is not a group that you would categorize as democratic opposition?

Mr. WOLFOWITZ. Absolutely not. It is very important to be clear about that.

Senator KASSEBAUM. It is certainly not the NDF.

Mr. WOLFOWITZ. Well, the National Democratic Front is a front organization largely controlled and dominated by the NPA. It is one of the devices they use to try to co-opt some people whose motives are perfectly respectable.

Actually, it is to the credit of the democratic opposition in the Philippines that, at least to date, they have largely resisted and successfully fought that kind of effort to take over their own organization.

Senator KASSEBAUM. Was it earlier that you were speaking about people having gotten involved in the NPA somewhat under false pretenses of understanding what it was about?

Mr. WOLFOWITZ. That's correct. I did say that. But I don't think that is a statement one would make of any of the serious leaders of the organizations.

Senator KASSEBAUM. No; I am sure that is true.

Well, it seemed to me, in looking at your testimony, that a lot of emphasis is being placed on the elections, and you listed the suc-

cesses of 1984—the fair and more open parliamentary elections, which evidently did prove to be fairly successful. Is that correct?

Mr. WOLFOWITZ. That's correct. But 1984, that was May, and it is nearly 18 months ago, and people are not so optimistic about the elections in May 1986.

That is why Senator Kerry is absolutely right that this is going to be a crucial bellwether of whether things have improved or whether they are going backward.

Senator KASSEBAUM. That is true. But maybe this is what has triggered our escalation of emphasis, with Senator Laxalt's special mission and so forth. But what are we sort of actively doing in the hope that President Marcos can realize the seriousness of the situation?

It seems to me that we are hearing some of the frustration—I am sure you must feel it—that we have given some very important and really top emphasis to the importance of this and on all fronts; and yet, are we really making some progress?

Should we be more involved in working with the elections coming up in the spring? Should we be already working on observers? Should we be sending election analysts as we did in El Salvador, or is there a danger in becoming too involved, that we are then viewed as being simply used as a tool of President Marcos?

Mr. WOLFOWITZ. I think there are a lot of things that we can do to have some impact. As a matter of fact, I think hearings like this will have some impact.

On the specific question you ask about observers, my feeling is it is too early to say whether sending observers would be a useful thing or something that would simply lend a certain aura of legitimacy to a process that does not deserve it.

But I certainly think the contemplation of sending observers, the involvement of American legislators and American politicians with Filipino politicians of both the Government and the opposition is a very healthy thing. It is something that can put a spotlight on the issues that are crucial to the question of fairness of elections.

Again, one respect in which we have something going for us in the Philippines is compared to a lot of relatively authoritarian governments, it is a rather open society. There are a lot of ways of bringing influence.

The Government does respond to domestic pressures and domestic views. The Agrava Commission would never have been formed if it were not for that, and it would never have produced the results it did if the members of that commission were not themselves very sensitive to broader opinion in the Philippines.

So, I think we can have some influence by contact with democratic politicians, and there are plenty in the ruling party as well as in the opposition, to let them know and to let the Government know that the conduct of these elections is of great importance to us. Having observers out there is an issue that one would address when the time comes. I think it is a very important part of that.

Senator KASSEBAUM. Mr. Armitage, regarding the bases, do we at this point allow personnel to move back and forth as they always have in the society there?

Mr. ARMITAGE. Throughout the Philippines?

Senator KASSEBAUM. Yes.

Mr. ARMITAGE. Well, there are certain areas which are more problematical than others. Certainly Mindinao and Davao are not areas that U.S. military personnel would go to on a lark because of the dangerous security situation.

I think we have increased significantly the awareness of the potential threat to our military personnel and their dependents in the area, and we are taking certain precautions to make sure they avoid areas in which they possibly find themselves in difficulty.

But the basic answer to your question is there is still a great deal of freedom of movement throughout the Philippines.

Senator KASSEBAUM. Perhaps you addressed this earlier, but is there any resentment, growing resentment, that is detected?

Mr. ARMITAGE. Toward Americans?

Senator KASSEBAUM. Toward our personnel there.

Mr. ARMITAGE. We do not have incidents of Americans being abused. There are thefts and things of that nature, which have long followed the American presence in the Philippines. But I am unaware of specific cases of abuse or of resentment being exhibited.

I think, generally, that public opinion polls in the Philippines indicate pretty much a reservoir of goodwill for Americans in general.

Senator KASSEBAUM [presiding]. Thank you very much.

Senator Dodd, do you have any questions?

Senator DODD. Thank you very much, Madam Chairwoman.

If I can, let me try to pick up on the line of questioning Senator Kerry was following.

I think we are all aware of the limited options which exist in the Philippines. Like Senator Kerry, I spent about 4 or 5 days there about 1 year ago and I had the opportunity to meet with President Marcos. In fact, I think I was the last person to be with President Marcos before he went off the screen for about 1 month or 6 weeks.

What struck me—and you hear this over and over again from the people who are paying attention to the situation—is that in 1972, when the situation in Vietnam was deteriorating, there was only one economic and social bright spot that we could point to in Southeast Asia and that was the Philippines. It was a remarkable country and we had a remarkable relationship with it. In fact, arguably, the only really sound relationship we had in that part of the world in those days was with the Philippines.

Now, some 13 years later, by almost anyone's standards, the darkest spot in Southeast Asia, with the obvious exception of Vietnam, is the Philippines. It is a deteriorating situation, and in the past 13 years we have watched terror increase along with corruption, poverty, and malnutrition. The oldest democracy in that part of the world is crumbling.

The impression that I think an awful lot of people get, including people here, is that rather than being concerned about what is happening to that country, the message seems to be one of unconcern. And I should add, by the way, that since 1980 we have the Vice President hailing Mr. Marcos as a great democrat, the visit of President Marcos and his wife in 1982, and any number of Cabinet people going back and forth. Over the last 4 years the Reagan administration has identified itself with that Government more than the two previous administrations had done.

Now we find the situation falling apart, and the message seems to be—and I only say "seems to be," and I would like you to argue with me on this, but it seems to be that our concern is not with what is happening in the Philippines, not with what could potentially happen in all of Southeast Asia if this situation continues to deteriorate. Our concern seems to be, rather, that President Marcos is no longer capable of defending our interests.

The perception seems to be that that is why we are so excited about it at this particular point.

Would you argue with me on that.

Mr. WOLFOWITZ. Well, I think the problem that we are facing is a problem not just for our interests but for the interests of the Philippine people.

Senator DODD. May I ask you to hold up for just a moment.

I would like to hear your response but I have only about 3 minutes to go to vote. I did not realize time was so short.

Senator KASSEBAUM. Perhaps we had just better recess. I think the chairman will be back in just a few minutes.

So we will recess and will be back in a few minutes.

[A brief recess was taken.]

The CHAIRMAN. The hearing will be called to order again.

We apologize to the witnesses for the vote interruptions, but we are advised there will be one more vote on cargo preference at some time this morning, and we will proceed in between those times.

Gentlemen, I would like to explore areas that have already been touched upon by other Senators but come to the heart of the matter, I think, for most people in the American public who have studied the Philippines.

A large national news magazine this week has a cover story on the Philippines. A suggestion in that story and in others is that we have been there before, that is, with governments that are important to us, friendly governments, ones that are strategically important, that we see problems in their national leadership. I suppose the suggestion is that this time, with regard to the Philippines, we have now been blindsided.

Clearly, each one of you this morning has indicated economic indicators that are not going well, military preparedness that, although it shows some signs of being better on occasion has some very real fundamental problems, and some thoughts hanging over it with regard to General Ver and the end of the Aquino trial; and clearly, with President Marcos himself, a good friend of this country for a long time, a man with whom all of you have visited, but a man who apparently has a physical illness and problems with staying in touch with the various islands and the various forces that are involved; and yet, I suppose, an impending sense of many of us that, although we see clearly the problems, the trend lines, and have measured them, the public as a whole is not certain that we in government know what to do about it.

Now, there are some problems that are not soluble. On occasion you can see the problems of friends, whether they are in families, quite apart from countries, and you wish you could do something about it, and it is not really clear that you can.

Senator Kerry raised the question in his 10 minutes. What real leverage of authority or influence do we have? He suggested that one of them is the annual debate we have in this committee on assistance, military and economic assistance. He raised the question is that the way you get the attention of people, by making changes in that, either in the mix or the amount. Clearly, by personal visitation, such as the one of our colleague, Senator Paul Laxalt, often mentioned, but for that matter other members of this committee, from time to time, maybe some messages come.

Is there something the President of the United States ought to do much more actively? Is that the way to get a message across?

But, even if the message gets through, the fundamental problem that Senator Kerry pointed to is that the President of the Philippines may have internal political problems, of political survival or an agenda that is a very different one from our own.

Now that led the aforementioned weekly news magazine to suggest that in a democracy, what do you do about that sort of situation? Do you openly discuss changes of government, changes of leadership?

In the past, maybe we did. Maybe lately we have been more squeamish about that situation and perhaps we ought to be.

That has brought much of our focus to the election procedure. We have tried, I suppose more antiseptically, to discuss the subject that way, with the thought that if we had election procedures and democracy worked, there were competing political parties and ideas, and that somehow from that process would emerge leadership that was better.

Now other scholars have said on what grounds, who are the alternatives? Are there people better prepared? Are there any people who have a higher acceptance than the incumbent president with all of his faults?

With all of that preface, gentlemen, are you prepared, at least in public testimony today, to suggest a course of action that would be more satisfying to the American people than that which we have heard before? I gather, to state what you have summarized, it is that we are trying to help reform the military, we are providing military and economic assistance, we are providing a lot of advice, a number of missions, we are urging democratic reforms and specifically elections that are fair and people to watch those. But does any of that really make a difference in your judgment, or is it likely to? And what course of action, if we are serious about change of policy, is going to be more fortuitous for us?

Mr. Wolfowitz, would you have a go at that?

Mr. WOLFOWITZ. I will have a go at it.

First of all, I think the course of action that we have been following has produced some results. We consider the results inadequate and disappointing, but they have been there. They are real and they represent progress.

Just the creation of the Agrava Commission itself is something that I think probably would not have happened without our influence, so I hasten to add it would not have happened if it had been only our influence and not a lot of Filipinos urging something of that kind.

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I think it is important to remember that the object is not simply to be satisfied that we are doing something dramatic. The object is to produce results, and to produce results that are better than the present situation.

It is possible to intervene in a dramatic way and make the situation even worse, and to turn something that is merely a very serious situation into one that is a calamity.

I think that that was the burden of what I was trying to say before.

There is one country—in fact, there are three—in Southeast Asia that are dramatically worse than the Philippines, and they are in Indochina, and the kind of total collapse of government authority which imprudent actions on our part might help to bring about is not going to advance the cause of democracy in the Philippines either.

The CHAIRMAN. Then, as I gather, and maybe this is an unkind way of stating it, we are sort of going to "hang on" and hope that things turn up for us. In other words, as you say, you can maintain the situation and thus things get necessarily no worse, or they are not catastrophic, even though, in the dialog you had with Senator Kerry, you admitted down the trail, if not inevitably, it is quite possible that we are going to lose the bases, we are going to lose democracy.

In other words, what I gather is, our current policy is one of sort of keeping things afloat, hoping that maybe some fortuitous circumstances may intervene to sort of save us from what apparently is a long-term trend.

Mr. WOLFOWITZ. I do not think it is as passive as that implies, Senator.

We are persistently looking every way we can at pushing the process forward. The mission of Senator Laxalt was one idea. We will see whether it has effects. If it does not have effects, there are other things to look at in the meantime at every level.

For example, in the area of economic reform, we are pushing with the World Bank and the IMF on the issues of sugar and coconut reform. I have not given that up. That is possible. There is a lot at stake for Marcos in getting both the further tranches of the IMF agreement and the World Bank loans, and maybe that leverage can be converted into some real change in the economy.

At the same time, let's also remember that just because certain things are not working, let's not just grab any idea that comes along and say anything is better than this.

I think we can make the situation worse, and that should not be our objective.

The CHAIRMAN. Well, what should we do, to take a topical example of the problem, if after the Aquino inquiry, the Aquino trial is finished, General Ver is acquitted and, furthermore, that President Marcos reappoints him to his previous position, thus, in the judgment of most of us, totally frustrating the military reforms that we think are vital, and indicating that, after all is said and done, after all the visitations, after all the influence and all the ministrations, President Marcos really sort of stays with the group that he has?

Now, it would not be illogical for him to do that. What I am asking, I suppose, is what should be our policy, our response, if that

type of thing occurs? I would simply see American public opinion, at least that which is interested in the Philippines, as interpreting that kind of situation extremely adversely, and the sort of debate we will be having next year on economic assistance or military assistance would be a very different one.

We had better begin thinking about those things. If we are going to send ahead signals, I, for one, have no influence in the situation, but I would simply advise President Marcos not to reappoint General Ver. I would say that would be a very adverse sign, very adverse.

I think our Government probably ought to be saying that up front as well as behind the scenes, that time is getting late, it is running out, and that one is going to confront us I think fairly soon. It is not a long-term trend.

In general, is it useful for us to take bold moves, to make some pretty bold pronouncements and stake out the course that we want to see free elections over there, that we are for democracy, and that we think they had better be free and fair, along the same lines we are encouraging in Central America, South America, and what have you, because our patience has about run out, too? I don't think President Marcos has gotten the word, whether it be from our good friend, Paul Laxalt, or from the President, or anybody else.

I am just suggesting that one point of this hearing is to try to get the word out in a different way because some of us take this very seriously.

Mr. WOLFOWITZ. Well, I think this hearing does serve a very useful purpose in that regard, and a number of things that each of us has said in our testimony are meant to say very clearly what we are for and what we need to see. In the specific area of military reform, we have made it clear that our assistance is premised on the continuation of reform, and if reform does not continue, then we are going to reevaluate what we are doing in the area of military assistance.

The CHAIRMAN. Then, if you follow that and you reevaluate, how do you come back to people that we argue with right around the table during the conference between this committee and the House? I was one, as you will recall, who was trying to argue for more military assistance against some pretty stout opposition even within that conference.

Let's say things just do not seem to be working out. What argument do I use next year—the thought that it might really get worse if there were less? Where are the leverages in the situation?

Mr. WOLFOWITZ. Mr. Armitage has been dying to answer several of these questions.

The CHAIRMAN. Fine. [Laughter.]

Mr. ARMITAGE. Well, I have not been dying to answer the questions.

I will caution, if I may, Mr. Chairman, that to totally and completely concentrate on Fabian Ver I think is not to give sufficient importance to the breadth and the depth of the problems in the Philippines.

I made a specific reference in my opening statement to the problem of overstaying generals who do not meet the criteria that I laid

out. It is a much larger problem than just Fabian Ver, who may be a symbolic problem.

In your question about what are we doing, forgive me, but it seemed to imply "are you guys just talking about it?" I want to speak in the area of military, procurements and FMS and our procedures, where we have not just talked about it but have done several things.

One is to go completely and totally to Government-to-Government contracts to make sure what is ordered is delivered and the best value for the dollar is obtained. Complete Government-to-Government contracts.

The CHAIRMAN. So you are missing the cronies that way. You are out of that.

Mr. ARMITAGE. You are completely eliminating a possibility of abuse.

Two, it is important, if you are so inclined next year to argue for security assistance, and if you buy my proposition, as some members of the opposition are beginning to buy it, the way we presently structure the Security Assistance Program, it does complement reform. I speak very deliberately because if you look at the items which we said we would procure, and which we did, and that we would hope to procure with 1986 moneys, and we will, you will see these are not items that oppress or brutalize. They are items that communicate or move or Medivac things or make parts work.

These are things that we promised you we would do, and that we have done. This has been accepted by the AFP.

So, I think there are other sides to that argument and I just wanted to get it on the record.

Thank you, sir.

The CHAIRMAN. Thank you very much.

Senator Dodd, would you continue your questioning.

Senator DODD. Thank you, Mr. Chairman.

I hope I am not interrupting your line of questioning.

The CHAIRMAN. No; I had just completed my own.

Senator DODD. Oh, all right.

I should say, by the way, before going back to my earlier question, and I think I am expressing the views of many of us on this committee as well as many of my colleagues in the Senate, that, lately, the administration has been doing an excellent job of keeping us informed about the situation. That has not always been the case in past situations.

I would not want the moment to pass without expressing that view.

But I am concerned about the perception of many in the Philippines that our interest is really in protecting our own interest. Now, there is nothing wrong with doing that, but it seems to be at the exclusion of everything else.

Whether or not you believe that to be the case, how do we disengage from this growing impression?

Mr. WOLFOWITZ. I think part of the reason for that impression is it is a sort of easier and more interesting story to write in the newspapers, than to write that the administration is for democratic reform.

We had the benefit—though we were not pleased to see the leak of a classified document—of a headline in the Post a few months ago, I think 6 months ago, roughly, I think on the lines of "Administration Secretly Supports Democratic Reform in the Philippines."

Well, we have made no secret of it, but stories like the ones that you have cited here before try to say, and I think falsely say, that our interests in the Philippines are driven by the bases. They are not driven by the bases. They are driven by a concern that on the present course the country is going, we will see a Communist victory that will not only damage our interest but severely damage that of the Philippines.

You asked the question, Senator, about didn't we come to all of this a bit late. There certainly has been a change in our view of the Philippines, in our perception of it. I would not say that it is simply with this administration.

I think if you go back over the record of the 1970's, you will see that, though there was a lot to criticize and undoubtedly criticisms were made, people on the whole were pretty comfortable, perhaps too comfortable. But that was not just Americans. It was Filipinos. Part of the reason there is a crisis and we are responding in that way is because that is the perception in the country.

In the 1970's there was rather impressive real economic growth, I think in the neighborhood of 5 percent a year, which only looks bad in comparison to its neighbors in Southeast Asia. On a world scale it was pretty good. People felt that Marcos was delivering the goods. It is clear that a lot of that was based on a pretty shaky foundation, but there has been a very real change, and our policy has changed with it.

Frankly, one of the reasons I welcome hearings like this is it is an opportunity to get out what we are about. But there is a difficulty in doing that. There are certain people both on the left and on the right in the Philippines who want to wilfully distort that.

But everything that we can do we do to make it clear that the administration and the Congress, Democrat and Republican alike, are deeply concerned about the situation and believe that democratic reform is the answer to the problem.

Senator DODD. I should have added, by the way, that the Department of Defense deserves equal credit as well for its candor in all of this.

Mr. WOLFOWITZ. Absolutely, Senator.

Senator DODD. Let me get back to a point, and any one of you can respond to it.

Is there any real hope that we are going to see President Marcos create any kind of fundamental change in the Philippines? There may be some reforms, but, realistically, do we hold out any real hope that he is going to go through a metamorphosis and change what has been a predominant characteristic over the last 20 years?

Mr. WOLFOWITZ. He is obviously not going to do it just because he wakes up some day and says, "Oh, my, this is what has to be done." But I think there are a great deal of forces operating, and not just from the United States, and, in fact, I think not principally from the United States, that push in the direction of reform. There were the elections held in May 1984. Cardinal Sin, the Archbishop of Manila, at the time was the only cardinal in the Philippines, the

leading Catholic prelate, described those as the fairest and best they had had since World War II. That did not happen because everyone in the Government was so enthusiastic about an election that was perceived clearly as a major gain for the opposition, but because there was enormous pressure built up in the Philippine society, including the creation of a whole movement for free elections that pushed in that direction.

In the area of the military, there is the remarkable phenomenon of a movement, an organization, of middle grade military officers who are saying we have to clean up our act, we don't want the military involved in politics, we don't want the military used to steal elections; and, in fact, that has led to the phenomenon that Secretary Armitage describes in his testimony where one of the leading opposition figures, when he was here in the United States a couple of months ago, said that he thought because of that development inside the military, assistance to these people was actually appropriate. But earlier he had been very critical of our military assistance.

In the economic area, the pressure is reality itself. Businessmen are not going to come back. Bankers are going to pull out. The World Bank and the IMF are not going to come up with the funds that are desperately needed by President Marcos himself if basic reforms are not going to be made.

So I think it is not just wishful thinking, but we do face a very, very tough road.

Senator DODD. Would you disagree with me if I were to characterize President Marcos as suffering from the "indispensible man syndrome?"

Mr. WOLFOWITZ. He has played a remarkable role in Philippine politics——

Senator DODD. I don't disagree with that.

Mr. WOLFOWITZ [continuing]. And everybody who has met him realizes that, whatever you may think of him, he is, in fact, a remarkable man. It is pretty classic in situations like that for people to get an even better opinion of themselves.

I think that is a fair statement.

Senator DODD. How about you, Secretary Armitage?

Mr. ARMITAGE. I can't do better than that, Senator Dodd. [Laughter.]

Senator DODD. Maybe I had better just stop right there, Mr. Chairman.

Let me pick up on the point about the military. My impression a year ago, when I asked President Marcos what he thought would likely happen with the General Ver court case, was that he would be exonerated. My next question was would you reinstate him, and I don't want to try to quote him exactly, but he clearly left me the impression that he would reinstate him.

My third question to President Marcos was what would be his response if the reinstatement created severe disruption and concern in the military ranks as well as in the civilian population.

President Marcos left me the impression that he really was not interested in all of that, and that if General Ver were exonerated, he would be bringing him back.

Was that your impression as well? How does that affect the military's morale and reform effort there?

Mr. ARMITAGE. I think Paul, Senator, indicated earlier that all of us—you and certainly the members of the administration—are affected by the feelings displayed by the Filipinos and how they accept something like that, should it come to pass, and how it would in large measure affect your own public statements on the situation and our own.

But I cautioned, I think in your absence, sir, that we should not spend all of our time and energies focusing on Fabian Ver. He was the leader of the military when the military was implicated in the Aquino assassination—an undeniable fact. He is not solely and totally responsible for the decline, across the board, of the AFP over the last 10 years. I prefer, sir, to focus on the total problem of overstaying generals who do not meet the criteria which I laid out in my testimony. Were they not to come back, and many others to stay in their same positions, I don't think we would have accomplished what we need, and that is vigorous, energetic leadership.

Senator DODD. I understand what you are saying about the symbolism associated with it and also about the concerns within the ranks of those younger officers who are anxious for reform. I met many of them and was impressed by them. They were very circumspect. They were not about to say anything directly to me, a U.S. Senator, any more than military people like to talk to politicians anywhere.

The impression I had was that it would be unsettling if he were to come back, and that it would mean a step backward for whatever reforms they were engaged in at this time.

Mr. ARMITAGE. Well, they are not afraid to talk to us, Senator, and we have heard two opinions expressed, frankly, one of which was somewhat surprising.

The first opinion is something along the lines you have just mentioned. I have heard almost exactly that. I have also heard that many in the Philippine military, who are very much interested in reform and involved in reform, have said well, we may expect him to come back; it is sort of the Philippine thing to do.

I was quite surprised at those remarks, that people who were so identified with reform would make those statements. But they have.

I do not pretend to understand fully the Philippine psyche regarding this phenomenon.

Senator DODD. My time has expired.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Dodd.

Senator Cranston.

Senator CRANSTON. Thank you very much.

Again, I welcome you to this very significant hearing.

I would like to begin by noting a recent comment by Raoul Manglapus, former Foreign Minister of the Philippines. He recently said the following:

> In the recent instances where democracy has been restored peacefully in countries such as Greece, Spain, Portugal, Peru, Bolivia, Ecuador, Argentina, Uruguay and Brazil, political parties collaborated and not always unanimously or solidly, on

a common strategy by which to regain democracy. In all of them, the dictatorship had to be terminated first, and then democratic elections were held.

In the Philippines, we are allowing ourselves to be maneuvered by Marcos into trying to do the reverse, accepting elections in which the dictator himself is to be a candidate, as he retains all his absolute power and his control of the army, the commission on elections, the secret police, all national media, and all significant public and private funds.

That ends the quote from Mr. Manglapus.

My question is this: How sanguine are you that peaceful change can take place while Marcos monopolizes power?

Mr. WOLFOWITZ. The reforms that we have talked about are ones that are not coming willingly. I think that is clear from the record.

But I think there is a great deal of pressure—as I said to Senator Dodd—on Marcos to permit some of these things to take place. Also, I would caution against assuming, Senator, that it is inevitable that if there were a free and fair election that he would not win it.

I mentioned, perhaps while you were gone, Senator, that the opposition took a poll in the Philippines and was, frankly, somewhat unhappy with the results of their own poll, which suggested that Marcos' support was a good deal greater than it had been thought to be.

I would imagine, in fact, that if there were free and fair elections, Marcos might well feel, particularly, with the self-confidence that Senator Dodd ascribed to him that he could win them.

I think there is an essential factor at work in the Philippines that is different from some of the other situations that Manglapus describes. It puts a special urgency into what we are talking about and it seems to me it has to have some influence on even Marcos himself, and that factor is the NPA.

There is a very threatening alternative out there, threatening to us and threatening to all Filipinos, and ultimately it is threatening to Marcos and the people he might wish to see around after him. That insurgency is simply not going to be beaten if there is not some real change.

I think, though those changes are unpleasant and unwelcome, some of that perception has to get through eventually.

Senator CRANSTON. I appreciate that analysis.

I would like to explore the concept of the carrot and stick approach to the Philippine people.

Do you have any initial reaction to the idea that I touched upon in my opening statement, that of a multilateral Marshall plan-type approach conditioned on substantial reform?

Mr. WOLFOWITZ. I have an initial reaction, but I have to keep it pretty initial because what you are proposing is something pretty big. If nothing else, the Office of Management and Budget would have my neck if I said anything too clear.

Senator CRANSTON. Let me note again here that the cost to us presumably would be less than the cost of having to move to new bases if we lose those bases in the Philippines.

Mr. WOLFOWITZ. That is absolutely correct, Senator. And, as I noted also, I think again, while you were out of the room, our assistance to the Philippines, it has to be said, is not spectacularly large. I might add, by the way, the leverage we can expect to get out of that assistance is not spectacularly large. It is not the most

important thing to Marcos. Just in terms of the scale of resources available, the kinds of aid that come right now from the World Bank and the IMF are actually much larger.

As I said, compared to what we invest, for example, in Pakistan, another country where we have a large strategic interest, it seems to me one could justify significantly larger expenditures in the Philippines, but not without some very deep and basic reform. On that general principle, which I see in the suggestion you are making, I think there is definitely something worth considering.

I think, when we are looking for new and additional forms of leverage, we ought to think not of cutting loose and cutting back on what we are doing now, we ought to think about ways of indicating, as you have, that with the right kind of circumstances and the right kinds of changes, we could do a lot more, because I think a lot more could be appropriate.

That is just a tentative and preliminary reaction.

Senator CRANSTON. Yes. I understand that.

Do you believe there would be a reasonable prospect of enlisting the support of nations like Japan, South Korea, and Australia in that effort so that we would not be footing the entire bill?

Mr. WOLFOWITZ. There are a lot of leaps to make. I think if we had the kind of program that we were convinced here in the United States made sense, it seems to me we are certainly entitled to look to a good deal of international support.

Again, I agree with that point that you make.

As I said in my own testimony, it is not only our interests that are at stake here. There are a lot of other people's as well. We realize that there are certain things that we can do that others cannot do. For historical reasons, the role that Japan can play in promoting reform in the Philippines has some considerable limits on it. I think, when it comes to putting up money, I believe we are entitled to look to those who have an interest to pay a proportionate burden. I would agree with that part of it very strongly.

Mr. GREENLEAF. Senator, I would like to comment on that subject, if I might.

Senator CRANSTON. Please.

Mr. GREENLEAF. Those of us working in the economic side of the donor community have discussed this question and we have discussed this with other donors as well as among ourselves.

I think the general feeling is, really, that the priority ought to be for the Filipinos to respond to the various policy reforms that are being pursued by the Bank, the fund, and particularly by us, among the bilateral donors, and unless or until a good-faith effort is shown to implement those, that that is not necessarily a step that should be taken at this time.

I think it is important for us, from my point of view, to focus on what has been put forth in the area of sugar and coconuts that Mr. Wolfowitz mentioned earlier, or in the food grains and other areas where we work bilaterally. We are working very closely with the Bank and the fund on these and, in fact, if the Filipinos are not really willing to make these decisions, the chance of a considerable amount of more money out there is not necessarily a sign that they would make them then.

Mr. WOLFOWITZ. Senator, I would like to make a point in case I left the wrong impression a moment ago.

Other countries are doing a lot right now, and Japan, in particular. We ought to give credit where credit is due.

I have the figures only for 1982, but the more recent ones would be roughly the same.

Our economic assistance to the Philippines in 1982 was roughly $200 million. Total assistance from all other sources was $330 million. The Japanese contribution in bilateral economic assistance, is I think, actually larger than our own. Their contributions through the World Bank and the Asian Development Bank are even larger numbers than these.

So there is a great deal that is done now multilaterally. I do not want to leave the impression that others are not doing their share.

Senator CRANSTON. It seems to me, in view of the huge trade surplus that Japan and some other nations have with us, that this is a factor that could be taken into account in requesting them to help; and also the fact, particularly in the case of Japan, that we do so much for defense for that country and we also provide security for ASEAN. Those are reasons that give us some legitimacy in seeking their help in this effort now.

I would like to make just one comment about the situation in the Philippines.

In a recent interview with the Asian Wall Street Journal, Marcos suggested that the Filipino people were culturally accustomed to the village strongman idea embodied in his presidency for life. I think this is really nonsense, based upon what we know about the history of that country.

I would like to quote Benigno Aquino as the best source on this point. He was especially impatient with the attitude of certain Americans that the Philippines were just another banana republic, lacking any democratic tradition and that we therefore shouldn't expect Marcos to allow a return to civilian rule. Nothing obviously could be further from the truth, Aquino reminded us. As he wrote just before he was murdered:

> The Philippines once had the freest press in Asia, and perhaps the entire developing world. Every 4 years it held presidential elections. The Filipinos have had six presidential elections and in the process removed from office four incumbent presidents. Marcos is the only president in the history of Philippine democracy who has resorted to martial law and other extra-judicial means to extend his own stay in power.

That is the end of the quote from Mr. Aquino.

We should simply bear that in mind, that the Marcos dictatorship is an aberration in the Philippines' proud democratic tradition.

I thank you for your thoughtful responses to my suggestions about a so-called Marshall Plan approach and I hope we can pursue that matter.

I thank you all very much.

Mr. WOLFOWITZ. Thank you, Senator.

Senator CRANSTON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Cranston.

Senator Kerry, do you have additional questions?

Senator KERRY. I have a few additional ones, Mr. Chairman, if I may.

The CHAIRMAN. Certainly. Please proceed.

Senator KERRY. With respect to the issue, the reason I want to clarify this obviously is I think it pertains to the options that we may or may not have available to us, particularly as we go through the next budget cycle.

I take it that the letter you referred to was the letter from the President to President Marcos regarding our agreement. Is that correct?

Mr. WOLFOWITZ. On the base agreement, that is correct, Senator.

Senator KERRY. I have a copy of it here which I would like to insert into the record, if that is agreeable to you.

The CHAIRMAN. Without objection, it is so ordered.

[The text referred to follows:]

TEXT OF PRESIDENTIAL LETTER

THE WHITE HOUSE
WASHINGTON

May 31, 1983

Dear Mr. President:

I was pleased to learn that our representatives have completed the review of the Military Bases Agreement which was agreed to during your state visit to the United States last year.

In light of this development, I wish to state that the Executive Branch of the United States Government will, during the five fiscal years beginning on October 1, 1984, make its best effort to obtain appropriation of security assistance for the Philippines in the following amounts:

Military Assistance.....$125,000,000
Foreign Military Sales Credits.....$300,000,000
Economic Support Fund Assistance.....$475,000,000

In this connection the United States Government will seek to provide the Foreign Military Sales Credit on the basis of a grace period of ten years and a repayment period of twenty years. As you are aware, under our constitutional system, the Congress has sole authority to appropriate funds.

I was also pleased to note that the Military Bases Agreement review confirmed that the Agreement continues to meet our mutual needs and interests. I believe that this review has again underlined the close and historic ties linking our two countries, and will contribute to further strengthening the peace and security of the western Pacific region.

Sincerely,

Ronald Reagan

His Excellency
Ferdinand E. Marcos
President of the Philippines
Manila

Senator KERRY. The letter says very clearly, "I wish to state that the executive branch of the United States Government will, during the 5 fiscal years beginning on October 1, 1984, make its best effort to obtain appropriation of security assistance for the Philippines in the following amounts," as we discussed—$125 million, $300 million, and $475 million.

Again, is former Ambassador Armacost's memorandum of agreement prior to Ambassador Bosworth getting there—I would like this also for the record.

[The information referred to follows:]

MEMORANDUM OF AGREEMENT

The exchange of notes between the Government of the Philippines and the Government of the United States amending the Military Bases Agreement, dated January 7, 1979, provides: "In every fifth anniversary year from the date of this modification and until the termination of the Military Bases Agreement, there shall be begun and completed a complete and thorough review and reassessment of the agreement, including its objectives, its provisions, its duration, and the manner of implementation, to assure that the agreement continues to serve the mutual interest of both parties."

Accordingly, discussions between representatives of the Government of the Philippines and the Government of the United States were conducted in Manila from April 11, 1983 to June 1, 1983. Pursuant to the understanding reached during the review, the Government of the Philippines and the Government of the United States agree to the following:

I. Operational Use of The Bases

Within the context of Philippine sovereignty, the operational use of the bases for military combat operations other than those conducted in accordance with the Philippines-United States Mutual Defense Treaty and the Southeast Asia Collective Defense Treaty (Manila Pact), or the establishment by the Government of the United States of long-range missiles in the bases, shall be the subject of prior consultation with the Government of the Republic of the Philippines, notwithstanding the provision of the 1979 amendment to the Military Bases Agreement assuring the United States of unhampered military operations involving its forces in the Philippines.

II. Access and Information:

With a view to keeping the Government of the Philippines fully informed about the activities of the United States forces in the Philippines, the following shall be established:

(1) The Base Commander and his designated representative shall have access to all areas of the United States facilities except cryptographic areas and areas where classified equipment or information is located. Access to areas where classified equipment or information is located shall be in accordance with mutually agreed procedures.

(2) The Government of the United States shall, within a reasonable period, inform the Government of the Philippines of the current level of the United States forces permanently

stationed in the Philippines, and their equipment and weapons systems. Thereafter, the United States Government shall notify the Government of the Philippines of any major change in United States forces permanently stationed in the Philippines, and major changes in their equipment and weapons systems.

III. Respect for Philippine Law:

It is the duty of members of the United States forces, the civilian component, and their dependents, to respect the laws of the Republic of the Philippines and to abstain from any activity inconsistent with the spirit of the Military Bases Agreement and, in particular, from any political activity in the Philippines. The United States shall take all measures within its authority to ensure that this is done.

The appropriate authorities of the Government of the Philippines and the Government of the United States shall cooperate in taking such steps as are necessary to prevent abuse of importation privileges granted to the United States personnel and their dependents pursuant to the Military Bases Agreement.

In this connection, the two Governments wish to reaffirm existing arrangements established in the prior agreements which provide for cooperation between the United States Armed Forces and Philippine authorities.

IV. Economic and Social Improvement of Areas Surrounding The Bases:

The Government of the United States reaffirms the statements made by Secretary of State Cyrus Vance in his letter of January 6, 1979, to Minister for Foreign Affairs Carlos P. Romulo to the effect that the two Governments shall take steps to promote suitable projects in the base lands outside the United States facilities and the areas surrounding them and that the Government of the United States is prepared to consider, subject to the approval of the United States Congress, appropriate assistance for improving economic and social conditions in Angeles City and Olongapo City and surrounding areas and to relate these efforts of the Government of the United States to plans of the Government of the Philippines for the utilization of returned base land areas. Moreover, the United States Forces shall procure goods and services in the Philippines to the maximum extent feasible.

V. Criminal Jurisdiction:

Paragraph 6 of the agreed official minutes regarding Article XIII of the Military Bases Agreement as revised by the Mendez-Blair agreement of August 10, 1965, is amended to read:

"In the event of hostilities to which the provisions of Article V of the Mutual Defense Treaty apply, either the Government of the Philippines or the Government of the United States shall have the right, by giving sixty days notice to the other, to suspend the application of any provision of Article XIII of the Military Bases Agreement. If such notice is given, the two Governments shall immediately consult with a view to agreeing on suitable arrangements to replace the provisions suspended. Until new arrangements are concluded, the provisions of Article XIII shall continue to apply in full."

VI. Labor and Taxation:

Representatives of the Government of the Philippines and the Government of the United States shall meet to discuss possible revisions of or alterations in the Agreement of May 27, 1968, concerning the employment of Philippine nationals by the United States Forces in the Philippines in light of the critical contribution made by the Philippine national work force to the effective operation of the United States facilities and with a view to ensuring that labor relations involving the Philippine national work force remain harmonious and productive. These discussions shall begin within six months after the conclusion of the 1983 review of the Military Bases Agreement or on another date agreed upon. The discussions shall be conducted on the basis of the principles of equality of treatment, the right to organize and bargain collectively, and respect for the sovereignty of the Republic of the Philippines.

The Government of the United States shall make arrangements for the withholding, beginning October 1, 1983, of Philippine income tax from the salaries of Philippine nationals employed by the Armed Forces of the United States in connection with the construction, maintenance, and operation of the United States facilities, in accordance with applicable Philippine laws and regulations, except employees whose income is exempt from Philippine income taxation or who are members of the United States Armed Forces. The Government of the Philippines shall notify such employees of the United States that withholding has been initiated at the request of the Government of the Philippines and that the Government of the United States, in complying with that request, incurs no obligation with respect to any reduction in net compensation or payment which may result.

The Government of the Philippines shall adopt a simplified procedure to facilitate the travel of members of the United States Armed Forces, the civilian component, and their dependents, who shall continue to be exempt from the payment of the travel tax imposed under Presidential Decree No. 1183 of August 21, 1977.

With regard to automobiles imported into the Philippines under the Military Bases Agreement by members of the United States Armed Forces, the civilian component, and their dependents, charges imposed for the registration of those automobiles shall include only the actual registration and license plate fees.

VII . Joint Committee:

A Military Bases Agreement Joint Committee shall be established as a means of consultation between the two Governments on matters regarding the implementation of the Military Bases Agreement which cannot be resolved between the Philippine Base Commander and the United States Facilities Commanders or any other matter regarding implementation of the Military Bases Agreement which either side wishes to bring before the Committee. The Military Bases Agreement Joint Committee will assume responsibility for matters relating to that agreement referred to in paragraph 4A of Annex A of the exchange of notes of May 15, 1958, establishing the Philippine-United States Mutual Defense Board. In view of its special character and composition, the Criminal Jurisdiction Implementation Committee will remain as presently constituted.

The Military Bases Agreement Joint Committee shall be composed of a representative of the Government of Philippines and a representative of the Government of the United States, each of whom shall have one or more deputies and staff. The Committee shall determine its own procedures and arrange for such auxiliary organs and administrative services as may be required. The Committee shall be so organized that it may meet at any time at the request of the representative of either Government.

If the Military Bases Agreement Joint Committee is unable to resolve any matter, it shall refer that matter to the respective Governments for further consideration.

This agreement shall enter into force upon signature. In witness whereof, the undersigned, being duly authorized by their respective Governments, have signed this agreement.

Done at Manila, in duplicate, this 1st day of June, 1983.

For the Government of the United States of America

Michael H. Armacost

For the Government of the Republic of the Philippines

Benjamin T. Romualdez

MBA REVIEW: AMBASSADOR ARMACOST'S STATEMENT

Mr. President, Ambassador Romualdez, members of the Philippine and U.S. MBA Review panels, and friends:

It gives me great pleasure to join with my colleague and friend, Ambassador Romualdez, in announcing the completion of this review of the Military Bases Agreement -- the first such review to be carried out in accordance with the provisions of the Military Bases Agreement as amended in 1979. It is a source of great satisfaction to me that this review has been conducted expeditiously, amicably, and with results that serve the interest of both our nations. I should like to take this opportunity to thank my own colleagues for their dedication and hard work; and to pay tribute to Ambassador Romualdez and his associates for their resourcefulness, their candor, their straight-forwardness, and their negotiating skill.

The cooperative spirit which marked this review bears testimony to the strength of our bilateral relations which has been particularly apparent, Mr. President, since your state visit to the United States last September. This spirit also demonstrated to all of us the effectiveness of the work of our predecessors who negotiated the 1979 amendments to the Military Bases Agreement, and to the skill and good will of those who have been charged with implementing it. Speaking as the United States panel chairman, we approached this review with the premise that continued U.S. access to military facilities in the Philippines serves a mutual interest: the preservation of an effective balance of power in the Western Pacific region.

Our objectives in this review, therefore, were clear. We sought to ensure arrangements for U.S. use of facilities on Philippine Military Bases which respect Philippine sovereignty, enhance our mutual security, and facilitate the resolution of practical problems that inevitably arise in any close relationship of this sort.

While we found much in the record of the past five years in which we could take well-warranted satisfaction, we concentrated our efforts upon finding ways to do things better in order to further bolster cooperation and ameliorate problems.

We have had extensive discussions regarding the matters embodied in this agreement. These talks have been completely open and frank as well as extraordinarily cordial, as befits relations between close allies. We have identified a number of areas in which cooperation between us can be improved or where modifications of existing arrangements would serve our mutual interests. The highlights of this Memorandum of Agreement include:

--The establishment of a Joint Committee to facilitate more effective implementation of the Military Bases Agreement on a continuing basis.

--The reaffirmation of the obligation of U.S. Armed Forces personnel to respect Philippine law.

--The reaffirmation of United States readiness to cooperate with the Philippine Government in improving economic and social conditions in Angeles City and Olongapo City and the surrounding areas.

--The formalization of procedures for access by the Philippine Base Commander and his designated representative to United States facilities at the bases and for the submission of information regarding U.S. forces permanently stationed in the Philippines, and their equipment and weapons systems.

--The pledge that U.S. forces will procure Philippine goods and services to the maximum extent feasible.

--The provision for a review of the Base Labor Agreement within six months.

--And the affirmation of consultative obligations of the United States regarding operational uses of the bases. Questions have been raised as to whether the language providing for our "unhampered use of the U.S. facilities" contained in the 1979 amendment might have modified previously existing commitments and might have even rendered them obsolete. We have here embodied into the Military Bases Agreement through the Memorandum of Agreement signed today a commitment to consultation which we will faithfully honor.

With the view toward enhancing the Philippine contribution to regional peace and stability, and to promote the economic well-being and strengthen the national defense of the people of the Republic of the Philippines, we have also discussed levels of security assistance to be provided by the United States to the Philippines during the next five years. It gives me pleasure to announce that President Reagan has transmitted to you, Mr. President, a letter dated May 31, 1983, conveying the pledge of the Executive Branch of the United States Government to make its best effort to obtain an appropriation from Congress of $900 million worth of security assistance during the five fiscal years beginning on October 1, 1984. Such

assistance would consist of $125 million in grant Military Assistance; $300 million in Foreign Military Sales Credits at substantially improved terms; and $475 million in Economic Support Funds.

President Marcos, Ambassador Romualdez, our staffs have worked together as partners. I believe they have done their work well. I am proud to affix my signature to this Memorandum of Agreement. I believe it will further strengthen defense cooperation between us.

June 1, 1983

MBA REVIEW: U.S.-PHILIPPINE JOINT STATEMENT

The Governments of the United States and the Republic of the Philippines have completed the scheduled fifth anniversary review of the 1947 Military Bases Agreement as called for in the 1979 amendment. Ambassador of the Philippines to the United States Benjamin T. Romualdez and Ambassador of the United States to the Philippines Michael H. Armacost headed the two panels which, in a spirit of close and friendly cooperation, conducted discussions in Manila from April 11, 1983 to June 1, 1983.

Accordirgly, a complete and through reassessment of the Military Bases Agreement and the manner of its implementation was accomplished to ensure that the agreement continues to serve the interest of both parties. The review resulted in the signing of a Memorandum of Agreement between the two Governments amending the Military Bases Agreement.

The Memorandum of Agreement contains provisions on:

A. Procedures for access of the Philippine Base Commander to the United States facilities and for the submission of information regarding United States force levels and their equipment and weapons systems in the Philippines;

B. The obligation of the United States Armed Forces personnel to respect Philippine Law and to abstain from any political activity;

C. The United States pledge to cooperate with the Philippine Government in improving economic and social conditions in Angeles City and Olongapo City and surrounding areas;

D. The procurement of Philippine goods and services by the United States Forces to the maximum extent feasible;

E. The modification of criminal jurisdiction arrangements in the event of war;

F. The review of the Base Labor Agreement within six months;

G. The withholding of income tax from Filipino employees working for the United States Armed Forces at United States facilities;

H. Procedures for securing exemption of U.S. Armed Forces personnel from Philippine travel tax and modification of automobile registration fees;

I. The establishment of a Joint Committee to facilitate more effective implementation of the Military Bases Agreement on a continuing basis. In addition, the Joint Committee will have the authority to review base areas that might be returned to the Philippines; study social, health, and other problems with a view to recommending programs and activities to improve conditions and enhance cordial relations between American personnel in the United States facilities and the surrounding Filipino communities; and address other topics relating to the implementation of the Agreement.

The United States will allow the Armed Forces of the Philippines to procure fuel from the pipeline between Subic Bay Naval Base and Clark Air Base in accordance with existing United States procedures and policies regarding the acquisition of military items.

During the review, both parties took note of the importance of the Military Bases Agreement in serving the security interests of the United States and the Philippines and in furthering the strong traditional ties between the two countries. In the light of the satisfactory conclusion of the review of the Military Bases Agreement and with the view toward enhancing the Philippine contribution to regional peace and stability, President Reagan has conveyed in a letter to President Marcos the intent of the Executive Branch of the United States Government to make its best effort to obtain appropriations for the Philippines of $900 million in security assistance, including Economic Support Funds. The appropriations, which are subject to United States Congressional approval, will be sought over a five-year period beginning in U.S. FY 1985 in the following amounts: grant Economic Support Funds $475 million; Foreign Military Sales Credits $300 million; and grant Military Assistance $125 million.

June 1, 1983

Senator KERRY. He referenced it saying:

It gives me great pleasure to announce that President Reagan has transmitted to you, Mr. President, a letter dated May 31, 1983, conveying the pledge of the executive branch of the United States Government to make its best effort to obtain an appropriation from Congress of $900 million worth of security assistance during the five fiscal years.

I would certainly interpret that as an available option to us wholly within our legal rights to consider in what form we are going to give it, and that we ought to be making some hard choices about the reforms that do or do not get implemented in the course of the next months prior to the election as we make a judgment about that aid next year.

I would hope that the administration and you would perhaps review that process of negotiation in the hope of opening that window of possibility and maybe that will increase our leverage.

Did you want to comment, Secretary Armitage?

Mr. ARMITAGE. Yes, sir.

As you know, we, of course, listen carefully to what you say and will do as you suggest and take a close look at these alternatives.

I know that it is very impolite or impolitic for a witness to ask a question, so perhaps I should ask a rhetorical question. It is this. Disregarding security assistance, is there a suggestion that the way it is now structured, the way it is now administered and the items which we are attempting to procure with the agreement of our Filipino AFP colleagues, is inappropriate? We worked quite hard with you and others to make sure that it did address the needs of the people who need it, and that is the fellow in the field, the soldier. I do not mean to be in the position of asking you a question, but I would just suggest that we are attempting to do that, at least as regards security assistance.

Senator KERRY. I understand that. And I think, in fact, that of the two forms of aid, between the ESF and the military, there is not any question that the military is that program over which we have stronger control, and we are clearly improving that ability.

But I do know that when I met with Defense Minister Enrile last April, he complained during my meeting with him that defense allocations from the national budget had declined by 25 percent in real terms since 1980, despite the fact that the Government has faced a growing insurgency; and in addition to that, budget allocations for education and health have declined substantially as well. And yet, the metro Manila projects of Mrs. Marcos have been adequately funded, as well as the University of Life and other things.

I think that raises the whole issue of what is getting where and what the intent of the Government itself is.

I guess that is what I am saying in simple terms, that we can be dangled around their finger for only so long, that we have to begin to make some hard measurements of whether or not they are serious about this process. We cannot go on to the next year and the next year, funding illusions and funding wistful hopes for which there is no real evidence of transition.

I am concerned, in addition, on the ESF part, that there has been a move to utilize our ESF assistance as counterpart funds for projects being pursued by the multilateral banks and institutions.

Now I think, and I would ask you this: does this not attack the basic concept of requiring counterpart funding? If we are supposed to be requiring of the government, the host government, their own input for a project in order to show their seriousness to pursue it, but we turn around and provide ESF funding to supplant that counterpart funding, we are giving the Philippine Government a freebie. I think that that is self-defeating.

I wonder if you would comment on that.

Mr. GREENLEAF. I would like to comment on a couple of points, Senator.

First, a quick comment on the University of Life and metro Manila projects.

We do not fund in any way the University of Life or the metro Manila projects through our ESF Program.

Senator KERRY. I understand that. But that is not the issue. Every dollar given is a dollar available for everything, correct?

Mr. GREENLEAF. That's right, but one could say that of any aid.

Senator KERRY. And we have said it of a lot of aid.

Mr. GREENLEAF. I want to put on the record, though, that we make very clear delineations of what we will fund and what we will not fund and those items are clearly delineated in the not funding category.

The second point is on the issue of counterpart, which is a point we have grappled with over the last couple of years as the Philippine economy has been in a downturn. Initially we did not fund the Philippine's share of the Asian Development Bank or the World Bank projects. But, as the economy turned down and as the Philippine Government was not able to provide its share of those projects which we have felt were positive, very meritorious projects, the choice was if somebody did not come up with counterpart funding, the projects would not go forward, and we were not giving this on a blanket basis to any projects. We, again, approved whether we felt those projects were in the developmental interests of the country.

So, although it was not the best situation, and were it not for the downturn of the economy, we would not have done that, in light of the circumstances and in light of the fact that we had these funds, we felt that that was a preferable result than to leave the projects to die in midstream.

Senator KERRY. I appreciate what you are saying, and I can understand, particularly from your perspective, where you are with a stake in these projects and other things. You want them to go through.

But I am trying to look at the larger picture.

I met with a lot of businessmen, both there and others who have come through my office when they are here, very reputable, earnest, business individuals, who run large corporations, who understand international finance. They are reaching a point of exhaustion in their patience or in their belief that the economic process can be turned around.

They are not investing in their own country. Very few people are. The capital flight continues. If we are just stop-gapping it with our small amount of ESF funds, we are, in effect, taking away from the Marcos government responsibility for the economy of its own country.

It seems to me that we are sitting here grappling with frustrations. We are trying to find a way to leverage. We don't have a lot of it, and it seems to me that we ought to be thinking about how we can utilize what we do have in some way that is going to be meaningful.

Every time we give them a freebie for some project that they do not have to fund, then they can do the metro Manila project or whatever else they want to do, or cronies in corporations get bailed out with all the insidious diversions of payments that we know are taking place in that process. We are funding it.

Mr. WOLFOWITZ. Senator, we agree completely on the need to be hard-nosed. But I cannot accept the notion that we are not so being, or that we are just funding illusions.

Take the example which I described in some detail in my testimony of the reforms we are trying to get in the area of wheat importation and fertilizer distribution and flour milling.

We have been very hard-nosed there. We are not at the end of the story yet. We see the kind of frustration and backsliding you talk about. In fact, at one point in that process, in the case of wheat importation, the whole agreement for reform was completely undermined by another arrangement that was introduced to basically re-create the monopoly in another form. Since the Public Law 480 money had already been committed, we said OK, we are going to withhold development assistance until you clean this up. They have, in fact, now changed again, just recently. It remains to be seen whether they deliver. If they do not deliver, it is going to have an effect on our economic assistance levels. There is no question about it.

This has, in a modest way, at least in the area of flour milling, produced some results. In fact, one of the committee staffers has done a lot of impressive work on the Philippines in general—and I would like, in fact, to commend the committee staff. We have learned a lot from some of the investigations they have conducted in the Philippines. In fact, one of them came back from a trip to Manila with a Montana wheat bag which had been presented to him in gratitude by a Philippine baker for the greater availability of American wheat that had resulted from this reform of the flour milling sector.

So I absolutely agree with you on the need to be hard-nosed. We are open to suggestions and ideas about how to be tougher and more specific.

But we are doing that now.

Senator KERRY. Mr. Chairman, I see the red light, but may I just pursue a couple of other things?

The CHAIRMAN. Go right ahead.

Senator KERRY. Thank you.

With respect to the 1984 elections, which have been referred to as sort of a measure of success or marginal reform, it is my understanding that a fairer assessment of the 1984 elections was that the Marcos regime really took them for granted, and where NAMFREL was able to have poll watchers and to be involved, there was a direct correlation between closer votes and/or KBL defeats, and NAMFREL's nonpresence in certain areas and KBL successes. In fact, many observers report that the regime was considerably sur-

prised and taken aback by what happened and therefore resolved not to let such freedom in fact exist again because they do not want any more such surprises.

Now, it seems to me that is a fairer interpretation of the 1984 elections.

Do you want to comment on that?

Mr. WOLFOWITZ. Well, I suppose the derecognition of NAMFREL, subsequent to those elections, would sort of bear out your analysis, and I don't say that one can reject it.

But our policy has to be to make it clear there has got to be the same kind of fairness, and, if anything, greater fairness in the coming elections. We can take a little bit of comfort that Marcos has begun to talk recently about reinstating NAMFREL and having them play an active role. Again, as always happens with the Philippines, you have to see the details and see how that works and make sure that it does work.

That is one of the reasons, in speaking to Senator Kassebaum, that I encouraged the idea of Members of Congress, Senators, and American politicians of all kinds getting involved with Filipino politicians now, with both the opposition and the Government, to talk about election procedures. I think that kind of spotlight is another part of the pressure that will perhaps force them to do some things that they might not be as eager to do.

One of the key pieces of leverage here is something that, in a sense, is going to happen of its own, and that is that the international banking community, the international economic community, the investors that the Philippines so badly needs, are going to be watching those elections as an indicator of whether it is a reasonable place to invest or not. So the more the spotlight can be put on those procedures, I think the greater the chance that willy-nilly the result will be like last time.

Senator KERRY. Where do you place the recertification of NAMFREL in the benchmarks that you are setting up for measuring possible alternative responses in the course of next year? Would the noncertification of NAMFREL be prima facie evidence of a significant nonreform which should elicit a different response from the United States?

Mr. WOLFOWITZ. Let me say that, particularly in the area of political reform, it is important that we not be pursuing an independent American agenda. It is a Philippine agenda that we want to support.

If I speak of it that way, then I think it is fair to say that the people we talk to in the Philippines from all sectors seem to recognize that the certification of election observers and the composition of the commission on elections, are probably the two most important benchmarks and keys to an effective outcome.

So it is on the top of the agenda. The agenda is a Philippine agenda, and it is ours because it is theirs.

Senator KERRY. With respect to the base security issue, the recent Appropriations Subcommittee came back and found a lot of problems, such as the absence of no guards at sentry towers at Clark, NPA activities within the defense perimeter of Subic Bay. When I was there, I met with the commander and he talked about NPA activity in the region, a known presence.

The Philippine Government is supposed to be providing the perimeter security for that. Do we then make the judgment that they are not living up to the base agreements?

Mr. ARMITAGE. You are right that the Philippine Government, under our agreement, is supposed to provide the security for the perimeters and in all respects they are not doing what we feel they should. We have been engaged in a lot of conversation with them to get them to do better.

I would have to say that part of the problem with patrolling a perimeter, such as Clark, with 26 miles of territory, is a leadership function, that is part of the problem for not patrolling, and I have spoken to that. But part of it, frankly, is a resource problem. When you have 2 or 3 gallons of gasoline a month for a jeep, you have a problem patrolling 26 miles.

But I would like, if it meets with the committee's and the chairman's approval, to submit for the record as a classified enclosure the full range of security upgrades which we have been engaged in, and I think it will be gratifying to you on the one hand and also be a source of great information. But it will be a classified enclosure.

The CHAIRMAN. Thank you.

[The information referred to follows:]

SECURITY UPGRADE AT CLARK AIR FORCE BASE

[Deleted.]

The USAF security police mounted horse patrol has been expanded from 9 to 15 units.

Mobile barriers have been constructed and are pre-positioned at the base gates. An additional [deleted] portable barriers have been programmed for procurement with FY 87 funds.

[Deleted.]

FY 84 and 85 funds have been committed to additional flighttime and building security projects.

A closer working relationships with PAF conterparts (Clark AB command (CABCOM)) is being sought to include briefings, tours, demonstrations, etc.

[Deleted.]

An additional 50 USAF security police are programmed for FY 86.

[Deleted.]

[Deleted.]

Security Upgrade at Subic Bay Naval Base.

[Deleted.]

Installation of a backup satellite communications terminal is planned for USFAC Subic. This installation will reduce Subic's vulnerability to the communications isolation which could result from sabotage to existing facilities at the naval communications station at San Miguel.

[Deleted.] Additionally, we have identified the furnishing of appropriate equipment to Philippine base security elements as the number one priority for our FY 86 security assistance budget.

Senator KERRY. If our sentries and military police were to come into contact with NPA, what are our military rules of engagement with respect to them now?

Mr. ARMITAGE. Self-defense right now, sir.

Senator KERRY. Mr. Chairman, I appreciate your indulgence. I see the chairman of the subcommitee is here and I know he wants to ask questions.

I would like to make just one statement in closing.

I think that what is happening there is one of the great tragedies of the world right now from our perspective. We are looking at a democracy that is, in many ways, disintegrating on three different

levels right in front of our eyes—economic, political, social, and even on other levels.

I do not think it serves anybody any purpose to go back and examine how we got to where we are at this point in time. But I think we are going to face a couple of the toughest choices that we have ever faced in that region shortly. I am pleased to hear the administration begin to put the question of democracy ahead of the base interests and other interests.

But it is going to come down to a matter of those bases versus the future of the people of the Philippines, and I hope that in the next year, we in the Senate, in the Congress, and in the administration, are going to make the kinds of moves that are going to send the right messages and place us where we ought to be, which is on the side of the history of what that country has been.

I think in the long run, though there may be great pain to pay in some of our interests in terms of some of the short-term interests that we are trying to protect, I think in the long run the entire region and the world will respect us more for having sided with the Filipino people.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Kerry.

Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman.

I apologize for not being here earlier. I was at an Intelligence Committee meeting all morning.

I am curious about one area in particular. The Philippines, from the turn of the century up until the time it was granted its independence in 1946, was in effect a colony of the United States. At the time independence was granted, I am curious to know specifically what the document addressed with regard to the continued utilization of Subic and Clark military bases, and the United States maintaining a presence in the Philippines.

Mr. WOLFOWITZ. I will take a stab at it, Senator, though I may have to clean up the record a little bit on the historical facts.

We had, after independence, a base agreement concluded in 1947, I believe, that granted us pretty sweeping rights to the bases for an indefinite period with a provision that it could be reviewed by either country after a period of 35 years. It is 1991 that is the magic year, in which either party could review the terms of the agreement.

Sometimes, for example, opposition politicians in the Philippines have said well, in 1991 we ought to have a referendum just to affirm how the Philippine people feel.

The fact is that during that period, under so-called reviews of the military bases agreement, we have substantially revised them both to provide compensation packages for the Philippines, but also in the direction of giving the Philippines more control and sovereignty over the bases.

Senator MURKOWSKI. I am referring to the technical interpretation.

I think it would be appropriate, Mr. Chairman, for the record to remain open until legal counsel for the State Department can make that review.

I would like to know from the standpoint of just a very short legal brief whether we have, in fact, as part of the recognition, when we granted them independence, a continuing right of any kind, implied or otherwise, to either of those military fortifications.

Mr. WOLFOWITZ. We will get that for you, Senator.

[The information referred to follows:]

The terms of the U.S.-Philippines agreement provide that U.S. forces shall have the right to occupy the bases through 1991, and that after that date, either side may terminate the agreement upon the one year's notice. This obligation would be legally binding on any successor regime.

Mr. WOLFOWITZ. Basically, there is an implied right up until 1991.

Senator MURKOWSKI. And beyond that?

Mr. WOLFOWITZ. Beyond that it is subject to——

Senator MURKOWSKI. To mutual negotiation.

I would like to know, Mr. Secretary, specifically what the implied right is through 1991 and whether if there is, indeed, say, the extreme revolution in the Philippines of some kind or a coup, what position would the United States be in from the standpoint of a World Court interpretation of the legal opinion, which we will evidently have forthcoming.

Mr. WOLFOWITZ. We will get that information for you, Senator.

[The information referred to follows:]

As we advised the Senate Foreign Relations Committee in October 1985, the U.S. has terminated its acceptance of the compulsory jurisdiction of the International Court of Justice as of April 7, 1986. We are unaware of any other jurisdictional basis for an action against us in that forum.

Senator MURKOWSKI. Although I did not have the privilege of hearing the chairman's statement, I have heard about it. It was evidently a very strong statement to the administration saying basically time is a-wasting—get moving on the issue.

My question to you is this. In view of that strong statement, do you have some viable alternatives, or is it a situation where you really need a magician?

You and I have had several conversations about the dilemma and the realization that things very likely will get worse before they will get better, and maybe our course of action should be to make sure that we do not hasten them to get worse. Isn't the reality that while we can delegate a message to you, your options are really not too many?

Mr. WOLFOWITZ. Well, if you know of a magician, Senator, we sure would like to talk to him. [Laughter.]

I do not think there are any magic answers here. I think, as I said in answer to a number of other Senators before you came, we believe that the policies we are pursuing have produced some results and can continue to produce more. We believe the pace of progress has to be more rapid, however, and we will look at every idea we can. We have come up with some new ones of our own, and Senator Cranston offered one here today for ways of making the situation better.

But, as you yourself said, we do not want to undertake actions that make it worse.

Senator MURKOWSKI. My last question concerns your assessment of the ability of the Government of the Philippines to combat the

Communist insurgents' strategy. I don't think we need to go into what the strategy is, but what I am concerned about is the tremendous momentum of that Communist insurgency. The proportional increase from month to month seems like it is garnering the crest of a wave, sweeping over the Philippines. The ability to combat that tremendous momentum is becoming more difficult each day.

We are trying to play a responsible role, and yet the Philippine Government itself seems not to be able to combat the growth of the Communist insurgency throughout the country. More people seem to be aligning themselves with the cause. Don't you expect that to continue for the foreseeable future? Marcos just does not seem to be responsive to or to be able to turn it around fast enough.

Mr. WOLFOWITZ. The way things are going now, it is going to continue to increase, and the rate of increase is disturbing. The total size is still a long way from a collapse of the country. In fact, our whole point is it is something that could respond, and I think respond rather quickly, to dramatic action. But it is not going to respond to a continuation of a "business as usual" attitude.

Senator MURKOWSKI. I have no further questions, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Murkowski.

At this point I appreciate your staying with us. I know it is somewhat beyond the time we had hoped to recess. But the questions I think have been worthwhile. Your responses have been very helpful for our record.

We look forward to staying closely in touch with you.

The hearing is adjourned.

[Whereupon, at 11:55 a.m., the committee adjourned, subject to call of the Chair.]

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